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Comptroller of the Currency
Administrator of National Banks

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Background

The Office of the Comptroller of the Currency (OCC) was established in 1863 as a bureau of the Department of the Treasury. The OCC is headed by the Comptroller who is appointed by the President, with the advice and consent of the Senate, for a 5-year term.

The OCC regulates national banks by its power to:

- Approve or deny applications for new charters, branches, capital or other changes in corporate or banking structure;
- Examine the banks;
- Take supervisory actions against banks which do not conform to laws and regulations or which otherwise engage in unsound banking practices, including removal of officers, negotiation of agreements to change existing banking practices and issuance of cease and desist orders; and
- Issue rules and regulations concerning banking practices and governing bank lending and investment practices and corporate structure.

The OCC divides the United States into six geographical districts, with each headed by a Deputy Comptroller.

The Office is funded through assessments on the assets of national banks.

The Comptroller

Robert Logan Clarke became the 26th Comptroller of the Currency on December 10, 1985.

By statute, the Comptroller serves a concurrent term as a Director of the Federal Deposit Insurance Corporation and as a member of the Federal Financial Institutions Examination Council.

An attorney, Mr. Clarke was formerly with the law firm of Bracewell & Patterson in Houston, Texas. He joined the firm in 1968 and founded its Banking Section in 1972.

Mr. Clarke received a B.A. degree from Rice University in 1963 and an LL.B. degree from Harvard University Law School in 1966. He served as a Captain in the United States Army from 1966 to 1968.

The *Quarterly Journal* is the journal of record for the most significant actions and policies of the Office of the Comptroller of the Currency. It is published four times a year in March, June, September and December. The *Quarterly Journal* includes policy statements, decisions on banking structure, selected speeches and testimony, material released in the interpretive letters series, summaries of enforcement actions, statistical data and other information of interest to the administration of national banks. Suggestions, comments or questions may be sent to Tibby Ford, Editor, Communications Division, Comptroller of the Currency, Washington, DC 20219. Subscriptions are available for $60 a year by writing to Publications, OCC, Comptroller of the Currency, Washington, DC 20219.

Quarterly Journal

Office of the Comptroller of the Currency

Robert L. Clarke

Comptroller of the Currency

The Administrator of National Banks

Contents

An Evaluation of the Factors Contributing to the Failure of National Banks

Summary

As the number of bank failures has increased in recent years, the Office of the Comptroller of the Currency (OCC) has become concerned about improving its understanding of why banks fail and strengthening its supervision to address those problems. To that end, in mid-1987, the OCC began a two-part research project to identify the factors most often associated with bank failures. If we could demonstrate that certain characteristics and factors play a significant role in causing bank failures, the OCC would be in a better position to identify banks likely to fail and to work with the management of those banks to avert their actual closing. The project should also identify factors that can help banks avoid serious problems, even in difficult economic times.

The first phase of the project was completed late in 1987. It consisted of a close analysis of data on 162 national banks that had failed since 1979.[1] The goal of the analysis was to identify characteristics and conditions that were present as the failed banks deteriorated. The results of that analysis form the basis of this paper.

It was no surprise that two factors — quality of management and the economic environment — were shown to play a predominant role in bank failures. While economic problems played a key role in 35 percent of the failures, management deficiencies were a significant cause of failure in 89 percent of the banks surveyed. The analysis below details the kinds of management problems that appeared most often. Overall, it was clear that while a poorly managed bank might survive in a growing economy, it was in a poor position to survive adverse economic conditions.

The second phase of OCC's research project, which is now underway, involves a similar analysis of data on two other groups of national banks: those that became problem banks but recovered, and those that remained healthy throughout the last decade. Banks in both groups have been selected because of their similarity to failed banks in asset size, location and economic environment. Analyzing data on recovered problem banks should help us identify the most common deficiencies that banks must correct to recover from problem status. Data on healthy banks may help us identify factors that cause some banks to fail while others remain healthy.

Based on the first phase of the project, we cannot say for certain that banks with many of the conditions we have identified are likely to fail. We can, however, show that many banks that have already failed consistently suffered from the same deficiencies. Phase I information about the characteristics and conditions of failed banks supports the principle that underlies the supervisory agencies' approach to bank supervision: sound management is a bank's best and only defense against adversities. In the next phase of the project, we expect to gain greater insight into the specific management practices that separate banks that fail from banks that survive.

[1]The sample includes 94 percent of the banks that, since 1979, were declared insolvent by the OCC and disposed of by the FDIC either through a purchase and assumption, a deposit transfer, or a payoff of insured depositors.

The Results of Phase I: Evidence from Failed Banks

Two types of data about the failed banks were collected. First, factual information was recorded about each bank's geographical location, asset size, type of ownership, and changes in control. Second, each failed bank's performance in eight broad categories was subjectively evaluated. The categories were:

1. Policies, planning, and management quality;
2. Audits, controls, and systems;
3. Asset quality;
4. Liquidity and funds management;
5. Nonfunding expenses;
6. Insider abuse;
7. Fraud; and
8. Economic environment.

Using examination reports, bank histories prepared by OCC examiners, and other information provided by the banks and examiners, we rated each bank to determine the extent to which its performance in a particular area contributed to its failure.

Within these broad categories, several specific characteristics were also evaluated. A characteristic was considered significant if it was "very much a condition" at the bank. It was rated as insignificant if it was "marginally present" or "not a condition." By evaluating specific factors, we were able to detail the particular difficulties that a bank had within each of the broader categories that contributed to its failure.

Description of the Failed Banks

The failed banks surveyed had several features in common. A disproportionately large number were small banks

located west of the Mississippi River. Relative to the population of national banks, which in 1986 had a median asset size of $50.9 million, 79 percent of the failed banks surveyed had less than $50 million in assets (64 percent had less than $30 million). More than 85 percent of the failed banks were located in three OCC districts: Midwestern (24 banks), Southwestern (84), and Western (30).

Moreover, a disproportionately large number of recently chartered national banks have failed. Further, the number of national bank failures has increased over the past several years. While only 33 national banks in the sample failed between 1979 and 1984, 29 failed in 1985, 47 failed in 1986, and 53 failed in the first 10 months of 1987.

Predominant Reasons Why Banks Fail

It is well known that the principal problem at failed banks continues to be poor asset quality. This was borne out by the fact that asset quality had a significant impact on the failure of 98 percent of the surveyed banks. However, it was the intent of our study to determine what factors were most commonly responsible for poor asset quality. We looked at internal factors — management policies and systems — and external factors — the economic environment. Although we frequently found these problems to be interrelated, management weaknesses were more often judged to be a significant influence on failure.

In 10 percent of the failed banks, two other factors had a significant negative impact on bank performance. These were liquidity or funds management, and nonfunding expense (expenses not associated with funding the bank — *e.g.*, salaries, legal expenses, and management fees). Problems in these areas often go hand in hand with problems in other areas. For example, undue reliance on volatile liabilities, paying a premium for deposits, and failure to develop sufficient core deposits are often thought to cause banks to seek higher yields through riskier lending as a means of maintaining their profitability. Higher nonfunding expense may result in the same phenomenon.

Again, two fundamental forces were found to underlie these components of a bank's operations: the quality of board and management supervision, and the influence of the economic environment.

Board and Management

We found oversight and management deficiencies to be the primary factors that resulted in bank failure. In fact, poor policies, planning and management were a significant cause of failure in 89 percent of the banks surveyed. The quality of a bank's board and management depends on the experience, capability, judgment, and integrity of its directors and senior officers. Banks that had directors and managers with significant shortcomings made up a large portion of the banks that we surveyed. Several management shortcomings and the problems directly or indirectly related to them are listed and discussed below.

Uninformed or Inattentive Board of Directors

The OCC's recently released publication, *The Director's Book*, emphasizes the importance of a bank's board of directors. Specifically,

> A bank's board of directors is ultimately responsible for the conduct of the bank's affairs. The board controls the bank's direction and determines how the bank will go about its business. . . . A board must be strong, independent, and actively involved in the bank's affairs. The long-term health of the institution depends on it.

Nearly 60 percent of failed banks were judged to have directorates that either lacked necessary banking knowledge or were uninformed or passive in their supervision of the banks' affairs. Deficiencies in these areas often arise when the board is not getting sufficient or timely information from management and is not making sufficient effort to correct the situation.

The following factors were frequently found to be significant problems for the failed banks in our survey:

- Nonexistent or poorly followed loan policies (81 percent of the failed banks);
- Inadequate systems to ensure compliance with internal policies or banking laws (69 percent);
- Inadequate controls or supervision of key bank officers or departments (63 percent);
- Inadequate problem loan identification system (59 percent);
- Decisions made by one dominant individual — chief executive officer, chairman, or principal shareholder (57 percent); and
- Nonexistent or poorly followed policies for asset and liability management (49 percent).

Deficiencies such as these clearly show a need for improved oversight on the part of the board of directors. Banks that fail seem consistently to lack policies, systems, and controls to guide their staffs in performing the tasks required to ensure a well-managed and income-producing loan portfolio through both good and bad economic times.

We also found that insider abuse was apparent in many of the failed banks. Insider abuse — *e.g.*, self-dealing, undue dependence on the bank for income or services by a board member or shareholder, inappropriate transactions with affiliates, or unauthorized transactions by

management officials — was a significant factor of failure in 35 percent of the banks surveyed. In 16 of these banks, material fraud was also thought to have contributed substantially to failure. In all, material fraud played a significant role in 11 percent of the failures.

Problems of insider abuse or fraud were often related to lack of oversight and controls. The following characteristics were found more often in failed banks that experienced significant insider abuse or fraud or both than in banks that did not:

- Inadequate board supervision of key officers (found in 79 percent of the failed banks with insider abuse or fraud vs. 52 percent of other failed banks);
- Decisions made by one dominant individual (74 percent vs. 46 percent);
- Chief executive officer of poor integrity (70 percent vs. 21 percent);
- Unwarranted concentrations of credit (49 percent vs. 28 percent);
- Out-of-area lending (39 percent vs. 14 percent);
- Management behavior negatively affecting an affiliate relationship (31 percent vs. 6 percent); and
- Inadequate guidelines for purchasing loan participations (31 percent vs. 12 percent).

Overly Aggressive Activity by Board or Management

Another group of problems prevalent in the failed banks involved overly aggressive activity, described as "being excessively growth-minded or having liberal credit views." In 43 percent of the failed banks, the board of directors was overly aggressive in a way that had a significant negative effect on the bank's performance.[2] The lending and operating practices of many of these banks also reflected problems in this area.

The following characteristics typically associated with an overly aggressive bank board or management were frequently found in the failed banks.

- Liberal lending policies: liberal terms, collection practices, or credit standards (found in 86 percent of the failed banks);
- Excessive loan growth in relation to the abilities of management, staff, control systems, or funding sources (51 percent);
- Undue reliance on volatile liabilities — *i.e.*, deposits greater than $100 thousand but not necessarily brokered (41 percent); and
- Inadequate liquid assets or a secondary source of liquidity (38 percent).

[2]Note that an aggressive board can also be an uninformed or inattentive board. It could emphasize growth and aggressive income-generating policies without keeping close track or even knowing of the particular activities of its management.

Other Problems Related to Oversight or Management Deficiencies

Other indications of either overly aggressive activity or simply poor or uninformed management decisions include:

- Excessive credit exceptions — *i.e.*, missing financial statements or income information about borrowers or poor collateral documentation/perfection (found in 81 percent of the failed banks);
- Overlending — *i.e.*, high loan amount relative to debt service ability of the borrower (72 percent);
- Collateral-based lending and insufficient cashflow analysis (53 percent); and
- Unwarranted concentrations of credit (36 percent).

Summary of Board Oversight and Bank Management Deficiencies

The characteristics identified above show that, among failed banks, deficiencies of the board of directors and of bank management were pervasive and varied. The most often observed problems in these failed banks, however, involved the lack of policies and procedures or the failure to follow them. This suggests that establishing and adhering to policies and procedures is important to a bank's success.

Economic Environment

Eighty-one percent of the failed banks operated under depressed economic conditions. These depressed conditions usually resulted from the poor performance of the agricultural, oil and gas, and commercial real estate economies. The following is a breakdown of failed banks by the particular economy that affected them.

- Agricultural economy (27 percent of the failed banks)
- Mixed agricultural and oil and gas economy (21 percent)
- Oil and gas economy (19 percent)
- Commercial real estate economy (14 percent)
- No depressed economic sector (19 percent)

A depressed economic environment was rarely the sole cause of a bank's decline — in fact, it was the sole significant cause of failure in only 7 percent of the banks surveyed. In the remainder of the failed banks that operated in depressed economies, we found that other significant problems were also present. These problems most frequently involved deficient policies, planning, and management. Apparently, the depressed economic conditions revealed other problems that did not have such severe consequences during better economic times

An adverse economy was a significant factor, however, in 35 percent of the failures. The percentage increased over the time period of the survey. During the years 1979 through 1984, depressed economic conditions contributed significantly to only 21 percent of the failures. For the years 1985 through 1987, they contributed significantly to 39 percent of the failures.

This evidence, combined with the fact that many banks are currently operating at a profit under depressed economic conditions, clearly indicates that depressed economic conditions do not mean that a bank will fail, nor do strong economic conditions guarantee that a bank will succeed. The particular features that allow a bank to maintain profitability in the face of economic decline should become apparent when we evaluate the data from the second phase of this project.

Characteristics of Failed New Banks

Nearly one-third of the surveyed banks were established during and after 1981, and the difficulties experienced by these new banks are currently a point of some concern to bank supervisory agencies. The second phase of this study should yield more conclusive information about the problems and performance of new banks.

At this stage, however, by separating the 44 failed national banks established during or after 1981 from the 118 established before 1981,[3] we can determine whether the characteristics frequently present in the more recently established failed banks differ from those frequently present in the older failed banks.

Aggressive Management and Funding Expenses

Our information suggests that failed new banks tended to be somewhat more aggressive than other failed banks. The percentage of failed new banks with problems arising from an overly aggressive board or excessive loan growth is substantially higher than the percentage of other failed banks with these characteristics.

- Overly aggressive board (found in 55 percent of failed new banks vs. 36 percent of other failed banks);
- Excessive loan growth (70 percent vs. 42 percent)

Failed new banks were also more likely to have relied on volatile liabilities, to have paid a premium for deposits, and to have failed to maintain an adequate level of liquid assets. The conditions on the liability side of the balance sheet most likely began with the banks' failure to develop sufficient core deposits. Of the banks that had problems developing core deposits, most relied significantly on volatile liabilities and paid a premium for deposits.

Overhead and Other Nonfunding Expenses

High fixed asset and nonfunding expenses and poor physical location also were more often problems for failed new banks than for other failed banks. New banks typically faced substantially higher overhead costs than other banks. Such costs reflect the costs of entry, such as establishing computer and information systems, and the relatively high costs of recently purchased real estate. The higher costs may have encouraged some of the more aggressive behavior discussed above.

What We Have Learned from the Failed Banks

The first phase of the study provided clear evidence of something examiners have long believed based on their own personal experience — banks that fail almost invariably have serious management and board deficiencies. These problems appear to make a bank extremely vulnerable to adverse economic conditions. As a result, a combination of distressed economic conditions and poor board oversight and management deficiencies is most often the driving force behind failures.

The first phase of our study highlights the importance of establishing and adhering to sound management techniques that will serve the bank well, both in good times and in bad. The next phase, which will analyze recovered as well as consistently healthy banks, should provide the data necessary to gain a more detailed understanding of the interaction between a bank's external environment and its internal environment — *i.e.*, management policies and systems. With this information, we expect to learn how some banks managed to remain profitable, even in the face of adverse economic conditions.

[3] We are defining new banks as those that were established during and after 1981 rather than those that received national charters in that time period. Three other failed banks in our survey received national charters during these years but had been established as state banks before 1981.

Operations of National Banks

The first 9 months of 1987 were difficult for many national banks. In the aggregate, national banks earned record profits in the first quarter, but those profits were more than offset by second quarter losses. In the third quarter, national banks rebounded from those losses but not enough to put them into the black.

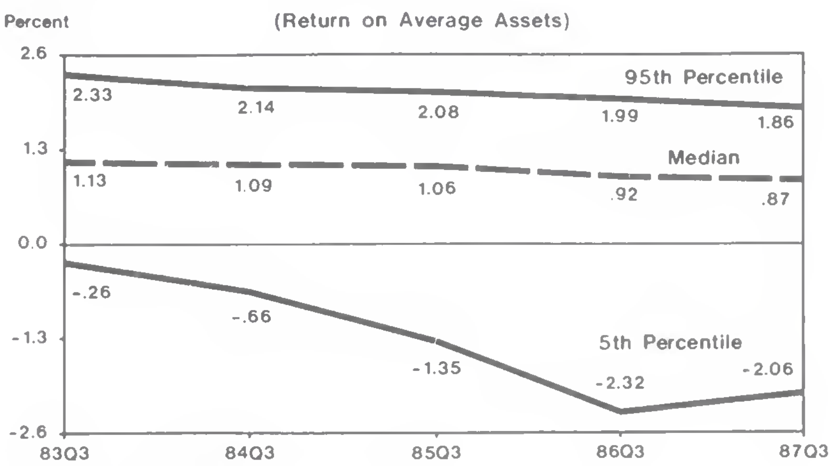
Results were particularly poor in the Southwestern District, where banks were affected by depressed economic conditions, especially in the energy and real estate sectors. Problem and failed banks remained heavily concentrated in the southwest, where more than one-third of the national banks lost money.

Results were also depressed for large national banks, those with assets in excess of $10 billion. They continued to be burdened by loans to Less Developed Countries (LDCs). As a group, these banks lost more than $5 billion through the third quarter. These losses more than offset the profits of smaller banks.

Profitability Declines Among National Banks

Through the first three quarters of 1987, nearly one national bank in five lost money, a slight increase since last year and more than twice the rate of 5 years ago. The rate of return was down for the majority of national banks, as the median return on assets (ROA) fell from its level of a year earlier. Declining ROA has been a persistent phenomenon during the past 5 years.

PROFITABILITY DECLINES AMONG NATIONAL BANKS

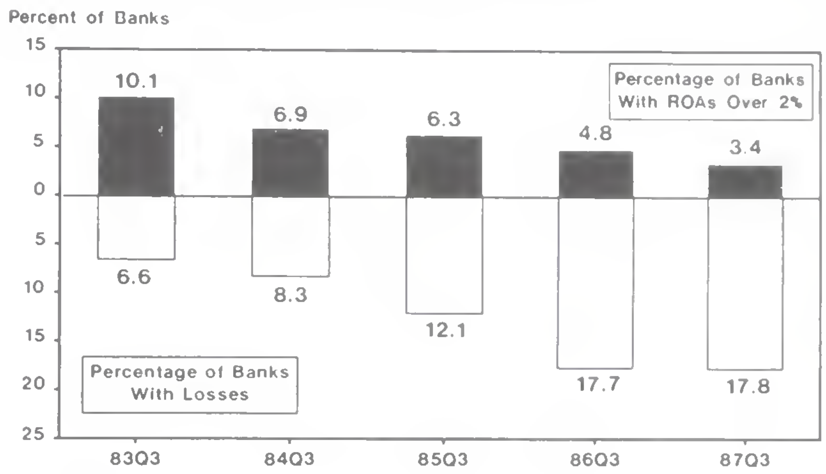


Source: Call Reports

Poor Performers Proliferate

Despite a recent improvement, the fall in profitability has been particularly pronounced among the banks with the weakest earnings. This has resulted not only in greater divergence in the performance of banks, but also in an increase in the number of unprofitable banks. In 1987, more banks lost money through the third quarter than in any of the past 5 years. Meanwhile, fewer banks earned a superior ROA, above 2 percent.

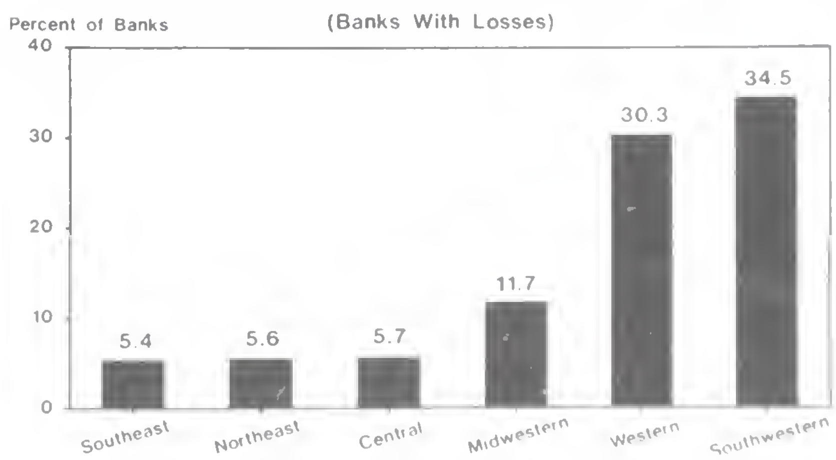
MORE BANKS ARE LOSING MONEY AND FEWER BANKS ARE EARNING SUPERIOR RETURNS



Source: Call Reports

The two groups of banks facing the greatest earnings pressure in 1987 were large banks with foreign loan exposure and banks in the Southwestern District. More than half of the large banks lost money, largely because of substantial provisions they made for possible losses on their loans to LDCs. In the Southwestern District rising nonaccrual loans pinched net interest margins. Deteriorating credit quality, especially among real estate loans, precipitated an increase in loan loss provisions. In the third quarter, more than one-third of the national banks in the Southwestern District posted losses.

MORE THAN ONE BANK IN THREE LOSES MONEY IN THE SOUTHWESTERN DISTRICT

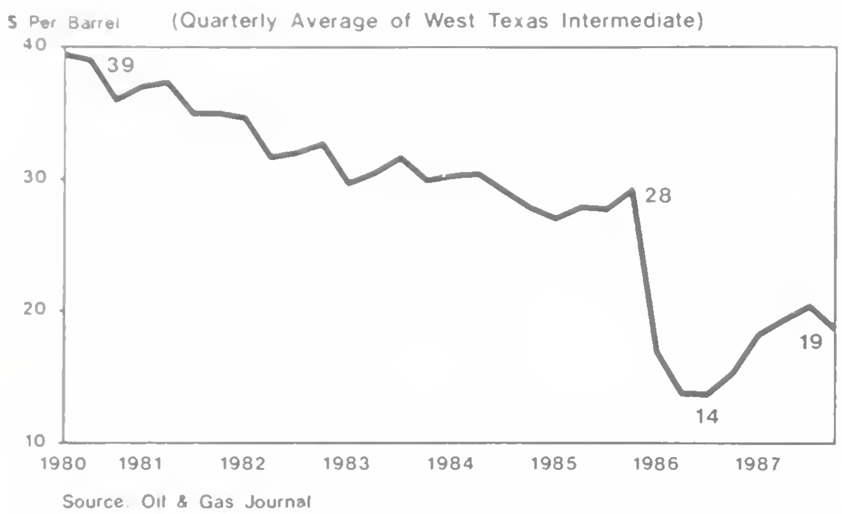


Source: Call Reports (Data as of September 1987)

Southwestern Banks Mirror Distress in District Economy

Since 1980 the price of oil has dropped to less than half of its peak. The descent was particularly steep in the first quarter of 1986.

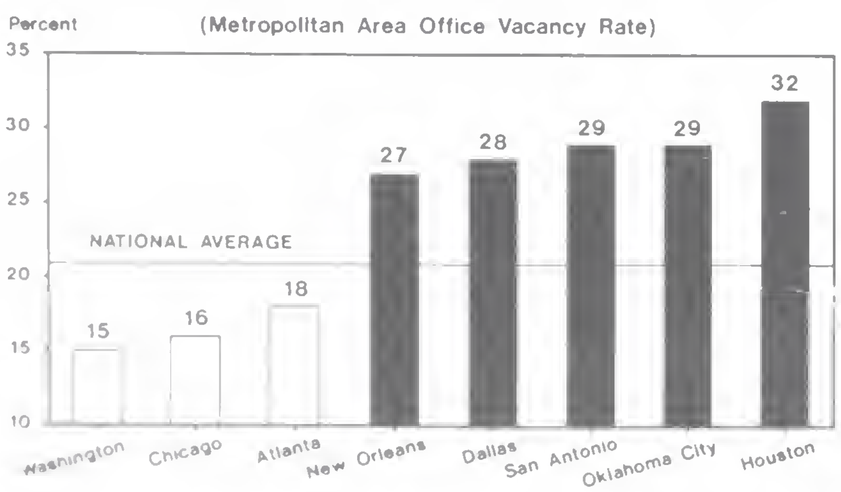
CRUDE OIL PRICES COLLAPSED



Source: Oil & Gas Journal

The plunge in oil prices exacted a heavy toll on the oil-dependent Southwestern District economy. Real estate markets were the hardest hit. Soaring oil prices in the 1970s precipitated a building boom and a rise in real estate values. That boom broke when oil prices fell. In Houston, for example, commercial construction declined by more than 80 percent between 1982 and 1986. Office vacancy rates quadrupled. The glut of vacant properties and drop in real estate values exacerbated the effects of the plunge in oil prices on economic conditions in the southwest.

OFFICE GLUT PERSISTS IN THE SOUTHWEST

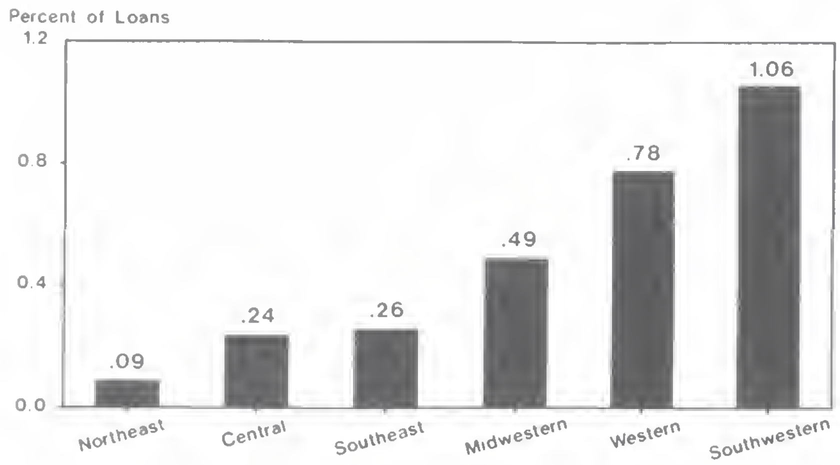


Source: Coldwell Bankers (Data as of September 1987)

Many banks in the Southwestern District saw their loan losses rise and their profits dissipate in the wake of these developments. Increasing amounts of oil and gas and real estate loans went bad and other loans soured as the effects of the depressed conditions in the energy and real estate sectors became more widely felt.

The high incidence of loan losses forced banks to set aside a greater portion of their income for loss provisions. As a result, the median loss provision (relative to assets) for national banks in the Southwestern District was nearly twice the U.S. median in the third quarter. Income was further reduced by high levels of nonaccrual loans which squeezed net interest margins.

SOUTHWESTERN DISTRICT BANKS SUFFER HEAVY LOAN LOSSES

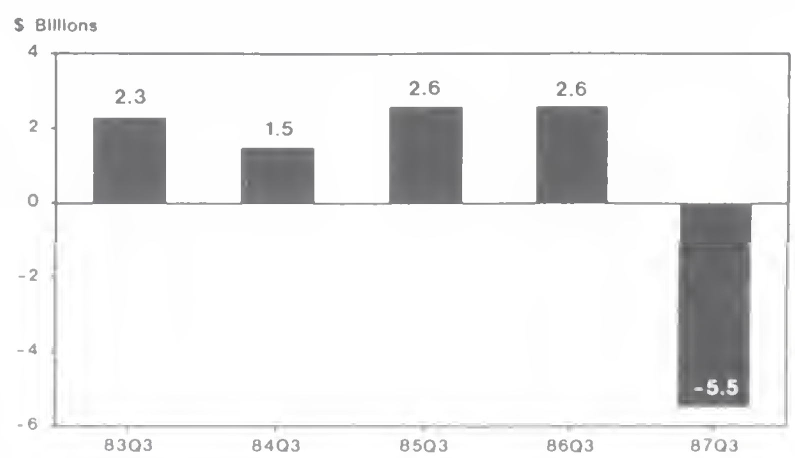


Source: Call Reports (Data as of September 1987)

Provisions for LDC Debt Lower Income of Large Banks

Through the third quarter, more than half of the national banks with assets over $10 billion lost money; their aggregate loss was more than $5 billion. This was a direct result of special provisions for LDC loan losses of more than $12 billion taken in the second quarter.

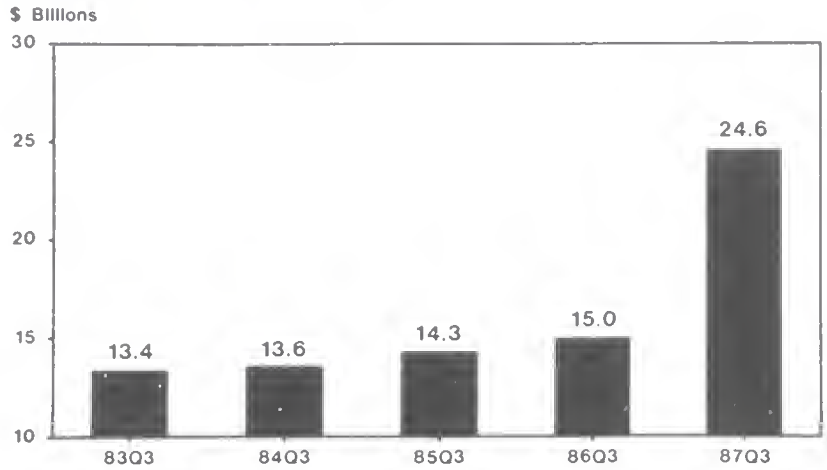
NET INCOME PLUMMETS AMONG LARGE BANKS



Source: Call Reports

Large banks' earnings were also affected by the Brazilian government's suspension, in February, of interest payments on their loans. Net interest income declined as nonaccrual loans increased.

NONACCRUALS SURGE AT LARGE BANKS



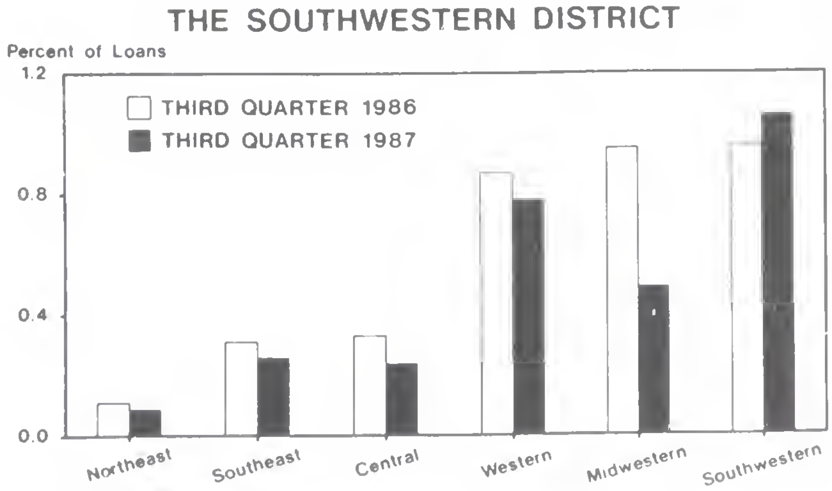
Source: Call Reports

The prospects for foreign loans on the books of large banks remain uncertain, but efforts to resolve some of the more intractable problems are underway. Two recent developments could affect bank earnings in upcoming quarters. First, Brazil has worked out a preliminary agreement to rescind its moratorium on interest payments. Second, the Mexican government has proposed a debt exchange in which banks would redeem their Mexican loans for 20-year bonds issued by the Mexican government, with the principal collateralized by U.S. Treasury securities. The success of these measures will influence the amount of interest these banks can realize on their foreign debt as well as the future loan loss provisions they will have to make against foreign loans.

Credit Quality Improves for Many Banks

Although credit quality concerns are significant in the southwest and among large, internationally active, banks, credit quality improved among many national banks. Nationwide, such credit quality indicators as the percentage of nonperforming loans and the rate of loan losses improved between the third quarter of 1986 and the third quarter of 1987.

LOAN LOSSES DECLINE EXCEPT IN THE SOUTHWESTERN DISTRICT



Source: Call Reports

Midwestern District Banks Rebound

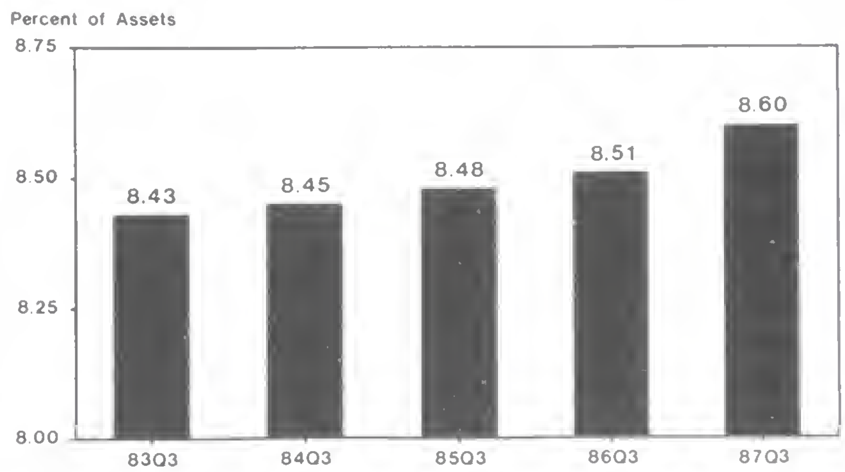
The most pronounced improvement in credit quality occurred in the Midwestern District. This improvement reflected a moderation of pressures facing another troubled economic sector, agriculture. In the early 1980s, the farm sector went through a crisis as crop prices fell and export markets collapsed. By the third quarter of 1987, however, farm exports had partially recovered, increasing by more than 25 percent from the third quarter of 1986.

The improved conditions led to fewer loan losses and may have rescued many farm banks from the brink of failure. Net loan losses fell to nearly half their level (relative to average total loans) of a year earlier. Even with this improvement, however, loan losses were incurred at a higher rate among banks in the Midwestern District than among banks in the Northeastern, Southeastern, or Central districts.

Primary Capital Ratios Rise

Through the third quarter of 1987, national banks increased their primary capital ratios relative to their levels of a year earlier. Primary capital ratios have risen steadily in recent years.

BANKS BUILD PRIMARY CAPITAL

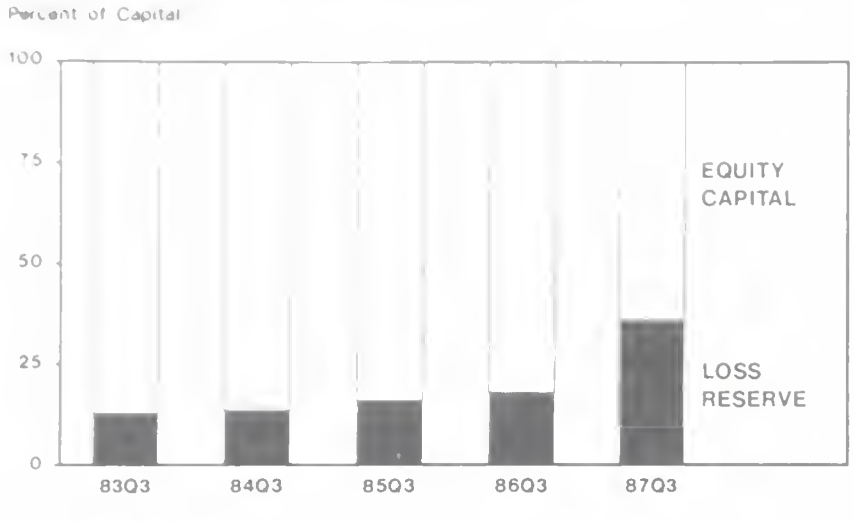


Source: Call Reports

Reliance on Loss Reserves Increases

An interesting development, however, has been the substitution of loan loss reserves for equity capital in the primary capital base at many banks. This has been particularly true among the large banks, especially in the wake of the provisions taken against loans to LDCs. In the third quarter, one-third of the primary capital at the large banks was in the form of loan loss reserves, more than twice the share of 1 year ago.

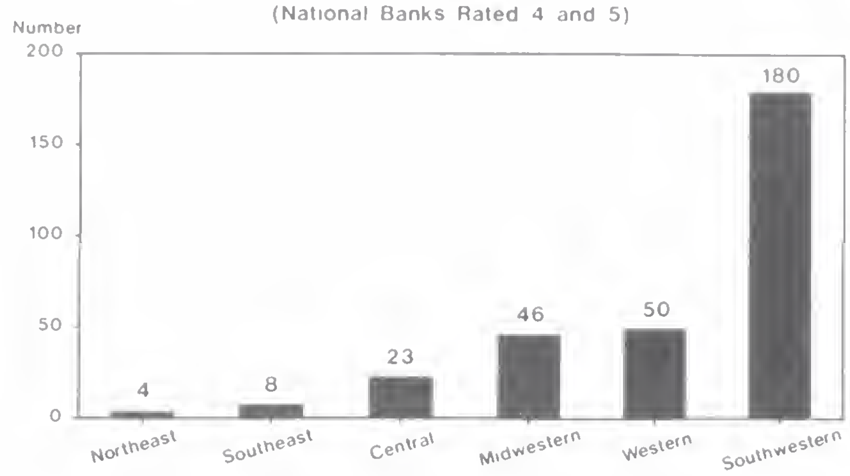
LOSS RESERVES REPLACE EQUITY CAPITAL AT LARGE BANKS



Source: Call Reports

THE SOUTHWESTERN DISTRICT HAS THE MOST PROBLEM BANKS

(National Banks Rated 4 and 5)



Source: OCC (Special Supervision)

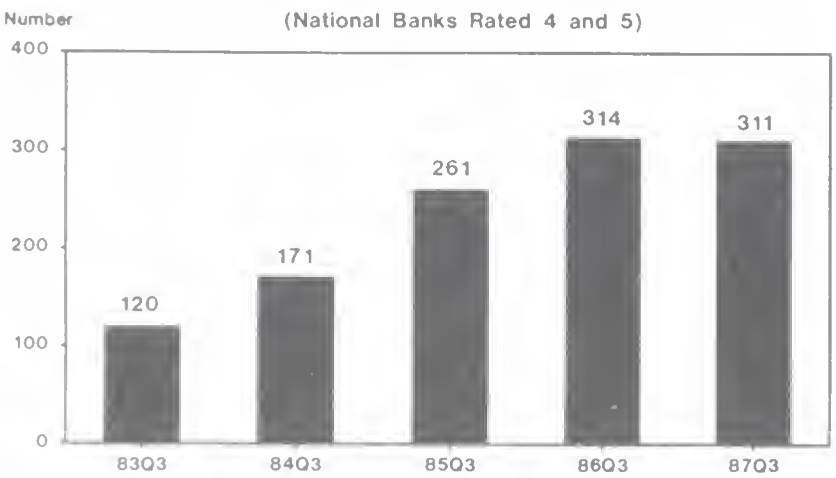
At the large banks, the decision to bolster loan loss reserves resulted in a substantial decline in equity capital in the first half of 1987. This prompted a number of banks to issue new equity within months of making those special provisions. The plunge in stock prices in October, however, has delayed further offerings.

The Number of Problem Banks Levels Off

Following a steady rise in problem national banks, the number declined, albeit marginally, between the third quarter of 1986 and the third quarter of 1987.

PROBLEM BANK GROWTH SUBSIDES

(National Banks Rated 4 and 5)



Source: OCC (Special Supervision)

Problems Persist in the Southwestern District

More than half of the problem national banks were located in the Southwestern District, where approximately one bank in seven was 4 or 5 rated. Problem national banks constitute less than 10 percent of national banks in every other district; the incidence is less than 1 percent in the Northeastern District.

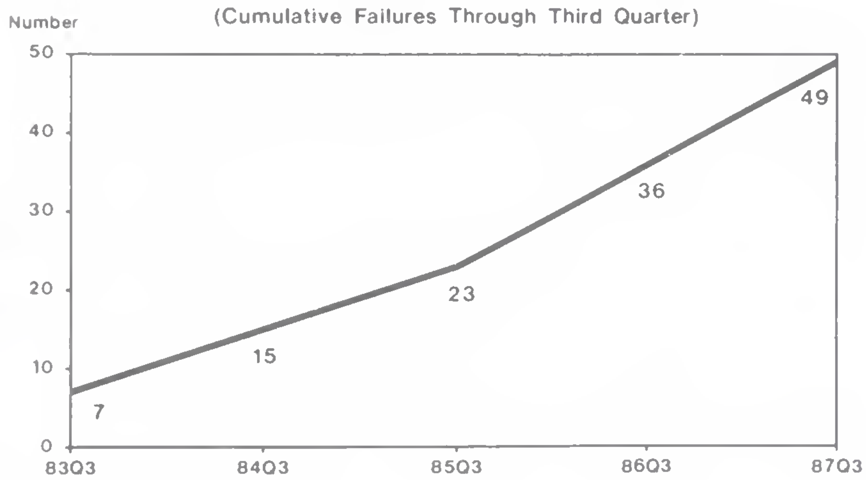
These numbers reflect the earnings difficulties and weak credit quality afflicting many banks in the southwest, particularly banks with substantial exposure to the oil and gas or related sectors.

National Bank Failures Rise

Through the third quarter, the number of bank failures increased for the sixth consecutive year.

NATIONAL BANK FAILURES RISE

(Cumulative Failures Through Third Quarter)



Source: FDIC

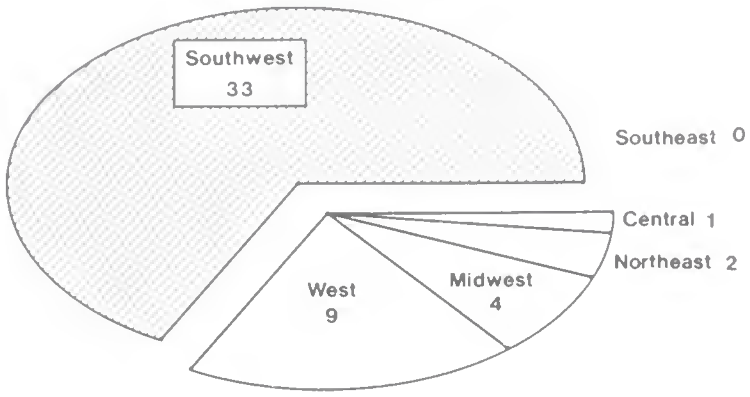
Failures Are Concentrated in the Southwest

In the first 9 months of 1987, two out of every three national bank failures were in the Southwestern District. Most were small banks; the median asset size of failed national banks was less than $15 million.

There were improvements, however, in the Midwestern District. failures declined through the first 9 months of 1987, largely as a result of improvements in the farm economy which reduced pressures on agricultural banks

FAILURES ARE CONCENTRATED IN THE SOUTHWEST

49 Failed National Banks



Source: FDIC (Data as of September 1987)

Rose W. Ho
Financial Analyst
Industry & Financial Analysis Division

Summary statistics for national banks[1]

	9/30/83	9/30/84	9/30/85	9/30/86	9/30/87	9/30/87 Over $10B	9/30/87 $1B-$10B	9/30/87 $0-$1B	9/30/87 New Banks[2]
Banking Aggregates									
Number of Banks	4,302	4,359	4,431	4,488	4,398	27	117	4,194	248
Total Assets ($ Billion)	1,324	1,433	1,554	1,655	1,715	764	551	400	3
Net Income ($ Million)	6,283	6,231	7,783	7,227	-1,339	-5,451	2,160	1,952	-31
Standbys & Commitments ($ Billion)	371	421	465	492	506	343	136	27	0
Percent of Banks with Losses	6.62	8.30	12.14	17.67	17.83	55.56	13.56	17.76	68.95
Number of Failed National Banks[3]	7	15	23	36	49	0	0	41	8
Number of Problem National Banks[3]	120	171	261	314	311	2	8	292	9
Performance Measures (Medians)									
Profitability (%)									
Return on Equity	14.14	13.52	13.26	11.41	10.57	-1.31	13.66	10.49	-5.93
Return on Assets	1.13	1.09	1.06	0.92	0.87	-0.05	0.88	0.87	-0.97
Yield on Assets	10.59	10.94	10.40	9.48	8.68	7.86	8.23	8.70	8.73
Cost of Funding Assets	6.36	6.82	6.19	5.45	4.73	4.93	4.57	4.74	4.40
Net Interest Income to Assets	4.25	4.13	4.20	4.04	3.95	3.15	3.73	3.95	4.03
Loss Provision to Assets	0.21	0.26	0.34	0.43	0.34	1.87	0.55	0.32	0.46
Noninterest Income to Assets	0.59	0.65	0.67	0.68	0.69	1.35	1.29	0.67	0.85
Noninterest Expense to Assets	3.10	3.12	3.19	3.25	3.25	3.23	3.53	3.23	5.38
Net Operating Income to Assets	1.12	1.09	0.99	0.77	0.81	-0.42	0.83	0.81	-0.95
Asset Quality (%)									
Nonperforming Assets to Loans & OREO	2.13	2.15	2.58	2.92	2.77	4.12	1.98	2.83	0.62
Loss Reserve to Loans	1.05	1.06	1.17	1.35	1.45	3.51	1.60	1.44	1.01
Net Loss to Loans	0.22	0.26	0.40	0.54	0.43	0.63	0.55	0.42	0.17
Funding & Liquidity (%)									
Net Loans & Leases to Assets	49.86	54.34	54.45	53.28	54.13	62.33	64.22	53.47	57.46
Interest Bearing Liability Dependence	74.75	75.48	75.90	77.14	77.84	76.30	74.71	78.03	72.92
Capital (%)									
Total Capital to Assets	8.61	8.62	8.65	8.63	8.75	7.62	7.76	8.85	11.66
Primary Capital to Assets	8.43	8.45	8.48	8.51	8.60	7.14	7.53	8.71	11.60
Equity Capital to Assets	7.92	7.88	7.82	7.77	7.81	4.86	6.29	7.91	10.92
Growth Rates (%)									
Assets	10.16	7.98	7.59	5.85	3.64	7.59	6.79	3.51	26.38
Equity Capital	9.30	8.61	8.17	6.71	5.80	-2.54	9.77	5.70	-5.13
Net Loans & Leases	8.02	15.63	7.65	3.79	5.05	7.47	11.09	4.83	36.29

[1]Data are for established banks unless otherwise noted; established banks exclude new banks.
[2]New banks are banks that have been in operation less than three years and have assets less than $25 million.
[3]Includes established and new banks. Problem banks have composite CAMEL ratings of 4 or 5.
Industry & Financial Analysis (1-11-88)

Summary statistics for national banks by district[1]
(Data through third quarter 1987)

	Northeastern	Southeastern	Central	Midwestern	Southwestern	Western	U S
Banking Aggregates							
Number of Banks	483	481	913	744	1,266	511	4 398
Total Assets ($ Billion)	608	239	278	112	181	296	1 715
Net Income ($ Million)	-2,204	1,704	251	427	-780	-737	-1,339
Standby & Commitments ($ Billion)	203	42	77	19	38	127	506
Percent of Banks with Losses	5.59	5.41	5.70	11.69	34 52	30 33	17 83
Number of Failed National Banks[2]	2	0	1	4	33	9	49
Number of Problem National Banks[2]	4	8	23	46	180	50	311
Performance Measures (Medians)							
Profitability (%)							
Return on Equity	14.83	14.02	12.06	10.36	5.45	7 08	10 57
Return on Assets	1.17	1.17	0.99	0.84	0.44	0.61	0 87
Yield on Assets	8.93	8.95	8.59	8.61	8.55	8.82	8 68
Cost of Funding Assets	4.68	4.67	4.79	4.88	4.83	4 21	4 73
Net Interest Income to Assets	4.31	4.29	3.81	3.77	3.76	4.64	3.95
Loss Provision to Assets	0.18	0.25	0.22	0.32	0.63	0.54	0.34
Noninterest Income to Assets	0.53	0.74	0.53	0.60	0.81	0 98	0.69
Noninterest Expense to Assets	3.12	3.40	2.89	2.96	3.45	4.52	3 25
Net Operating Income to Assets	1.13	1.12	0.94	0.79	0.35	0.49	0 81
Asset Quality (%)							
Nonperforming Assets to Loans & OREO	1.11	1.35	1.88	3.27	5.41	4.31	2.77
Loss Reserve to Loans	1.02	1.18	1.25	1.80	1.82	1.71	1.45
Net Loss to Loans	0.09	0.26	0.24	0.49	1.06	0.78	0 43
Funding & Liquidity (%)							
Net Loans & Leases to Assets	61.95	57.61	52.80	47.94	53.13	58.59	54 13
Interest Bearing Liability Dependence	76.71	76.45	78.67	80.13	77.87	73.14	77 84
Capital (%)							
Total Capital to Assets	8.40	8.97	8.69	8.98	8.77	8.71	8 75
Primary Capital to Assets	8.27	8.83	8.59	8.82	8.63	8.44	8 60
Equity Capital to Assets	7.60	8.17	7.91	7.90	7.69	7.50	7 81
Growth Rates (%)							
Assets	9.86	7.27	3.58	1.65	1.62	1.68	3 64
Equity Capital	11.04	9.40	6.40	4.99	0.53	3.61	5 80
Net Loans & Leases	19.12	14.08	8.08	0.29	-2.24	-0.29	5 05

[1]Data are for established banks unless otherwise noted; established banks exclude new banks.
[2]Includes established and new banks. Problem banks have composite CAMEL ratings of 4 or 5.
Industry & Financial Analysis (1-11-88)

Special Supervision and Enforcement Activities

OCC Special Supervision Division personnel in Washington and the six District Office are the focal point for supervision of community banks that require increased attention.

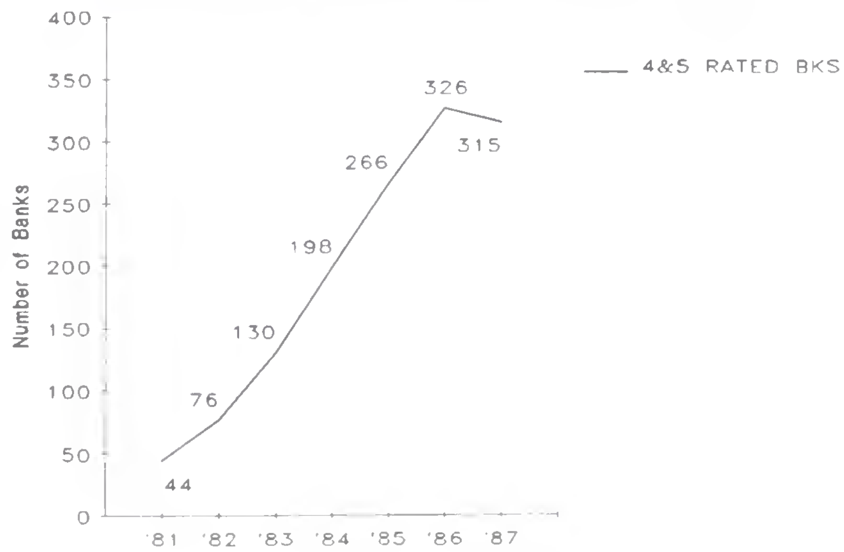
The Enforcement and Compliance Division of the Law Department, together with District Counsel, is principally responsible for representing the Office in presenting and litigating administrative actions.

Because the OCC often initiates enforcement actions against banks requiring special supervision, the two divisions work together closely. The following provides information on national bank failures, and summarizes enforcement actions taken during 1987.

Problem National Banks

After increasing steadily for several years, the number of 4 and 5 rated national banks declined in 1987. (Banks are assigned ratings on a scale of 1 to 5; banks in the most critical condition are rated 5.)

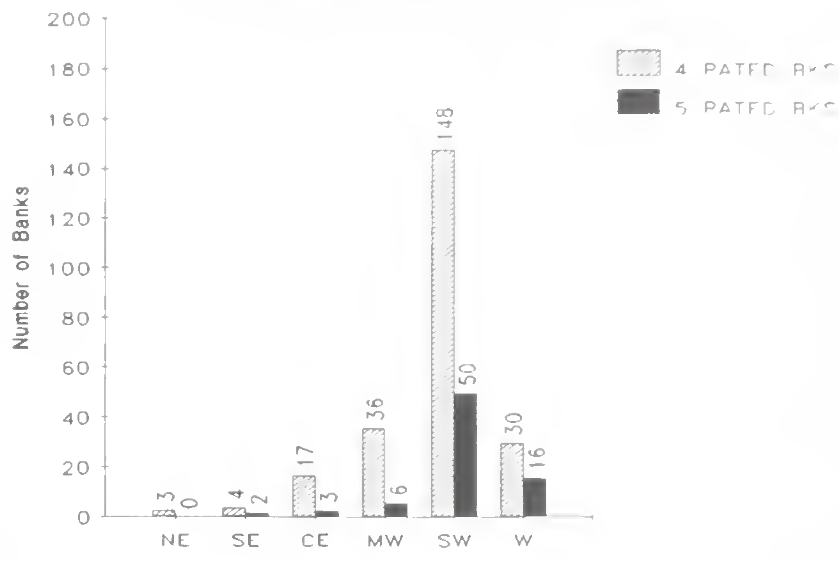
PROBLEM NATIONAL BANK TREND LINE



Source: Special Supervision

The majority of problem national banks are located in economically depressed sectors west of the Mississippi River. The Southwestern District has the greatest number of problem banks. Many of the states in this district are unit banking states.

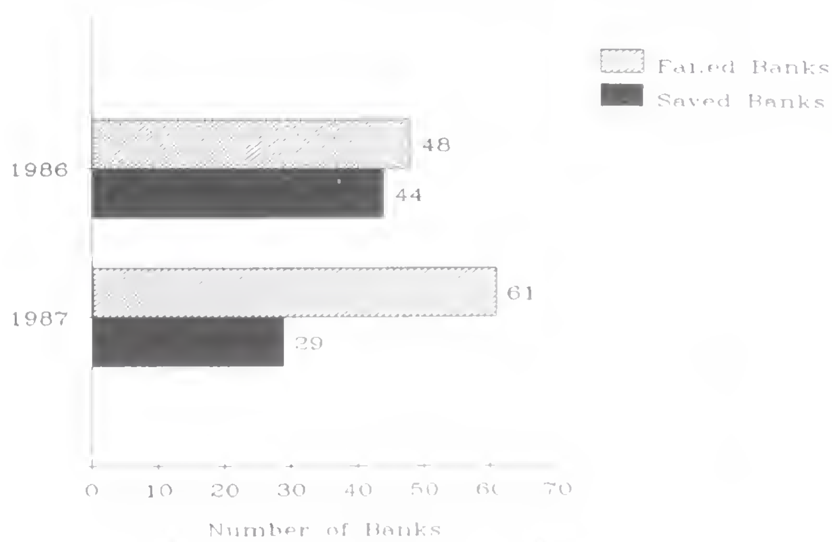
PROBLEM BANKS BY DISTRICT



Source: Special Supervision

Although the outlook for 5 rated national banks is not generally good, not all of them fail. The following chart shows the number rejuvenated through capital injections, financial assistance from the Federal Deposit Insurance Corporation (FDIC) under Section 13(c) of the Federal Deposit Insurance Act, administrative remedies, and efforts by management and the boards of directors. During 1987, innovative solutions by both regulators and interested buyers of troubled banks became increasingly necessary, particularly in the economically depressed areas of the country.

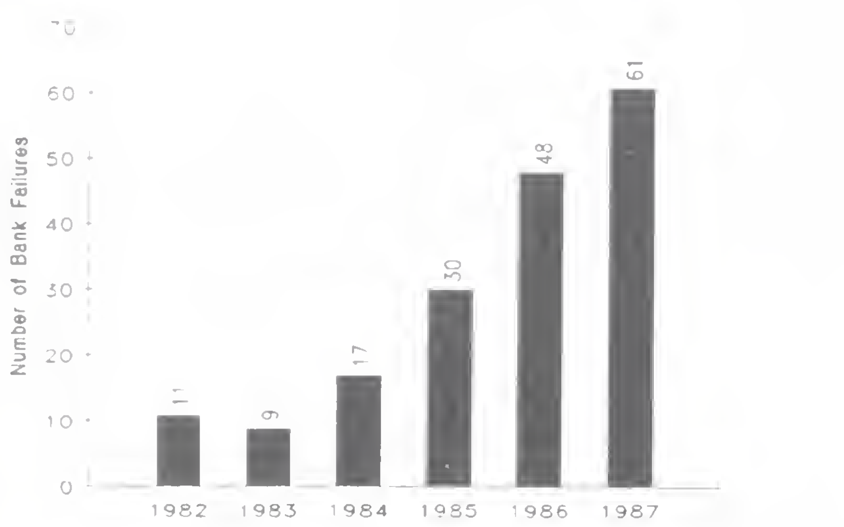
FAILED BANK / SAVED BANK COMPARISON



National Bank Failures

National bank failures have increased steadily since 1983. Although the overall number of problem national banks is leveling off, the number of critical banks and resulting failures during 1987 remained high. The 61 national bank failures and the 184 total bank failures in 1987 represent post Depression records.

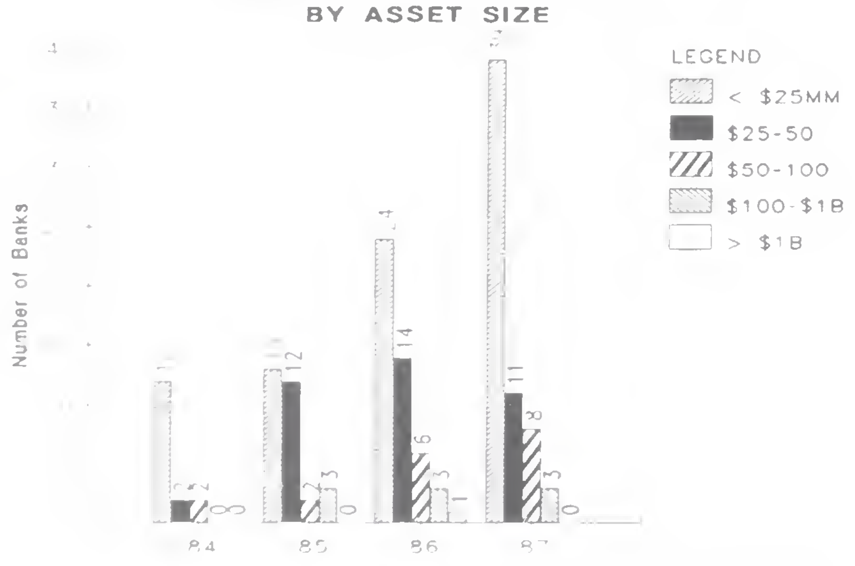
NATIONAL BANK FAILURES



Source: Special Supervision

Almost all failed national banks were relatively small; most had total assets of $25 million or less. In 1987, only 3 failed national banks had assets of more than $100 million.

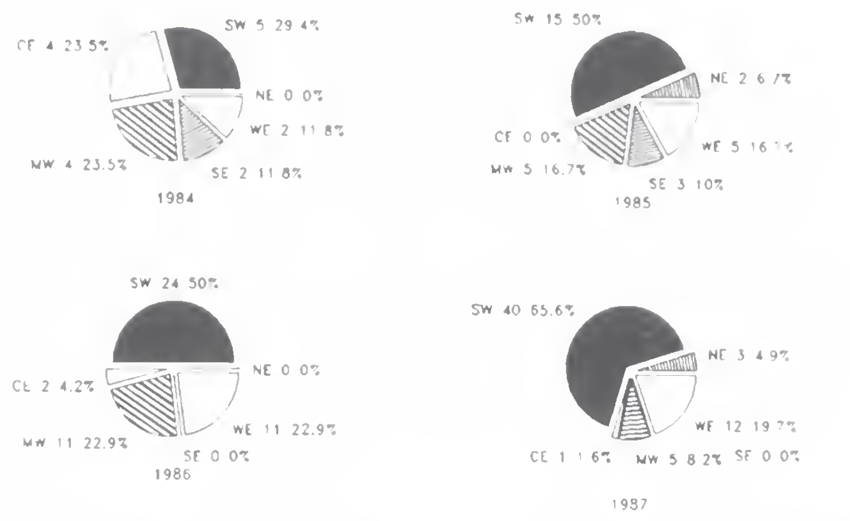
FAILED NATIONAL BANKS
BY ASSET SIZE



Source: Special Supervision

Most national bank failures have been in OCC's Southwestern District, which is consistent with the concentration of problem banks in that area. Most national bank failures were in Texas (28) and Oklahoma (12).

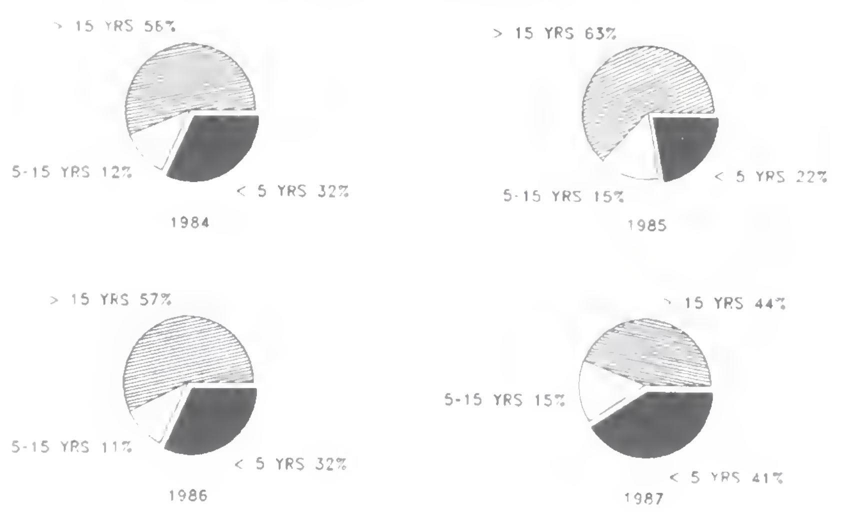
NB FAILURES BY DISTRICT



Source: Special Supervision

A significant number of national banks which failed in 1987 had been chartered within the past 5 years. The failures in Texas and Oklahoma, both of which are unit banking states, contributed heavily to this statistic.

AGE OF FAILED NATIONAL BANKS

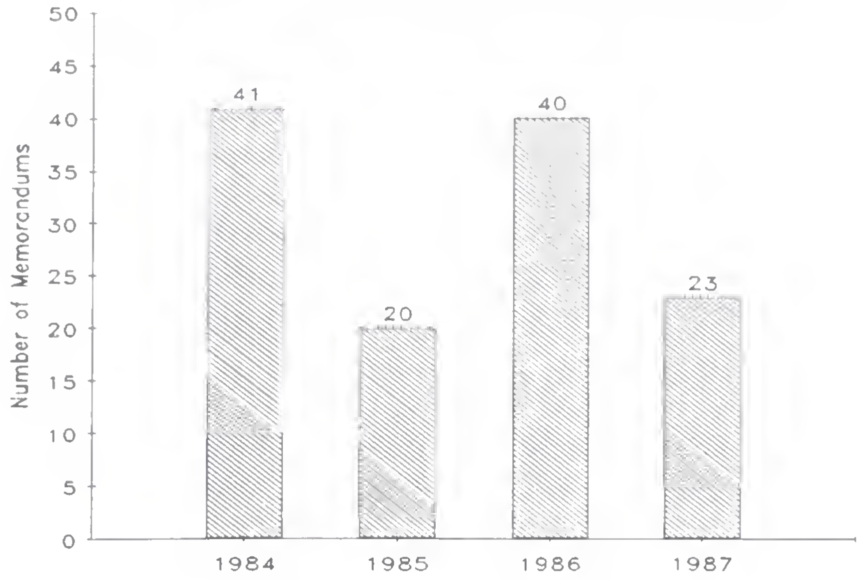


Source: Special Supervision

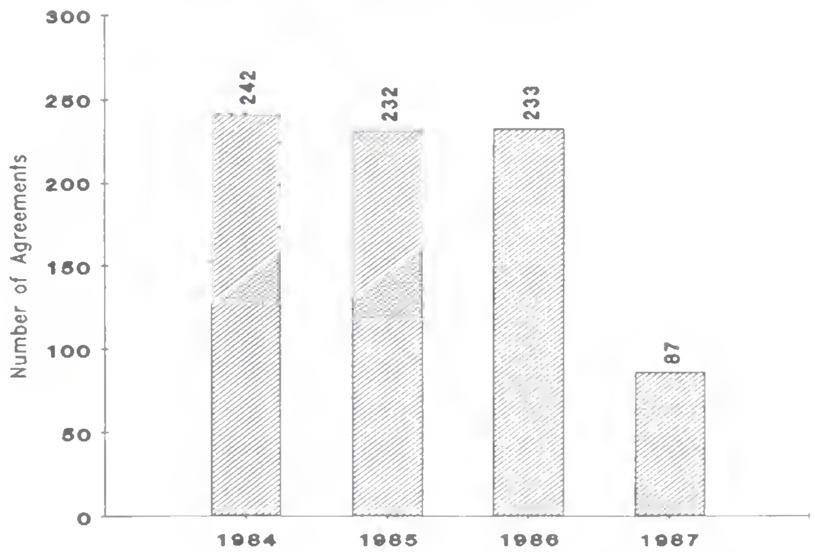
Enforcement Actions

In 1987, the Office implemented an amended enforcement policy *(see Quarterly Journal*, Volume 6, Number 3). As the following charts demonstrate, the number of administrative actions has declined considerably during the past year. OCC believes the decline is the result of a reduction in the number of new problem banks and the amending of the OCC's enforcement policy.

MEMORANDUMS OF UNDERSTANDING SIGNED

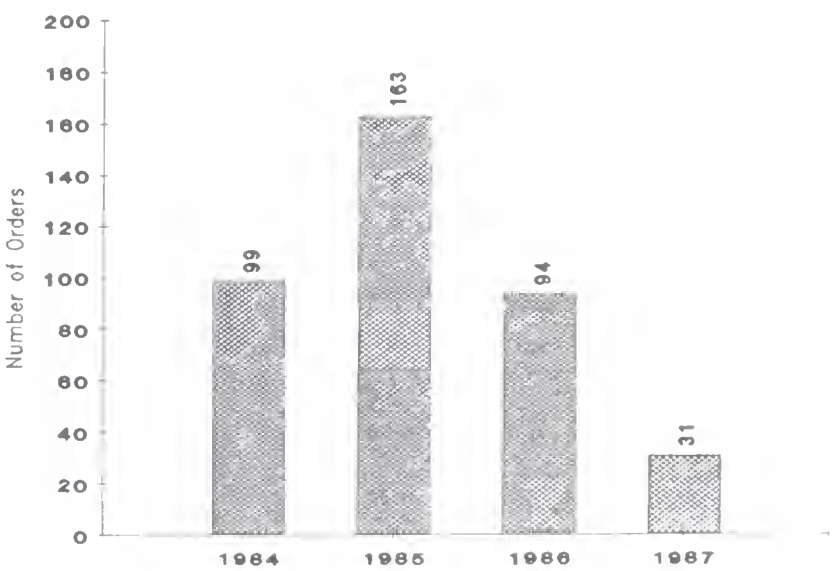


AGREEMENTS EXECUTED



Totals Include Amended Agreements

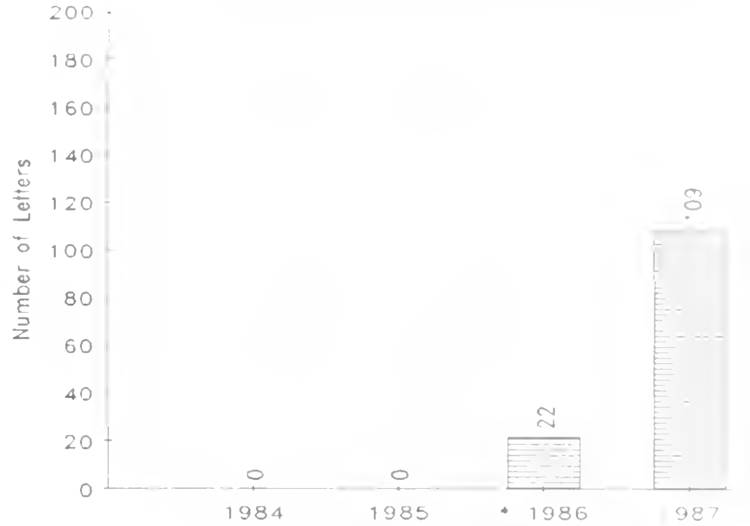
CEASE AND DESIST ORDERS STIPULATED



Totals Include Amended Orders

Some supervisory problems that previously would have been handled through administrative action were handled more informally. An example is a signed Commitment Letter which represents a pledge by the board of directors to take corrective action to address problems cited.

COMMITMENT LETTERS SIGNED



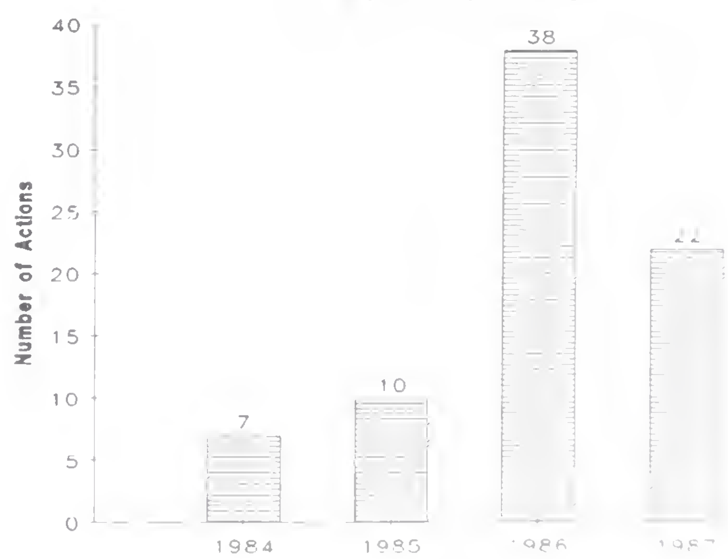
Commitment letters are a signed pledge by the board of directors to take corrective action

** 1986 Count was Estimated*

Enforcement actions during 1987 addressed a wide range of issues. Nine areas of supervisory concern were cited most frequently. Banks were required to: take immediate and continuing action to protect their interest with regard to assets criticized by OCC; to increase and/or address deficiencies in their Allowance for Loan and Lease Losses (ALLL); to develop or improve procedures for internal loan review; to correct violations of law; to rectify credit and collateral exceptions; to undertake various studies by bank management or the board; to develop or improve their capital plans; and to develop or improve their written lending policies.

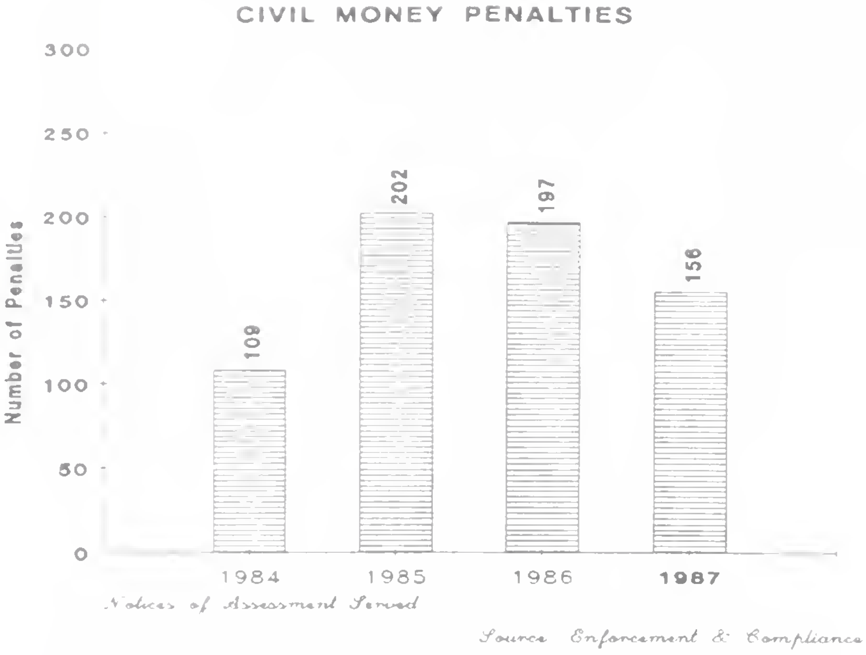
Occasionally, the OCC is compelled to order the removal from banking of bank officers and directors who have violated the law and/or acted in an unsafe and unsound manner. Removals are sometimes negotiated as part of the final settlement of significant civil money penalties.

REMOVAL ORDERS



Numbers Represent Final Orders of Removal

A civil money penalty can effectively deter or encourage correction of violations of laws, regulations and cease and desist orders. Such a penalty may deter similar violations both by the persons against whom the penalties were assessed and by other banks and bankers. There was a slight decline in assessments served in 1987.



Several of OCC's recent enforcement cases are described below. These cases have been chosen because they represent the types of actions taken by the OCC in response to serious violations of law, insider abuse, and unsafe and unsound conduct which significantly affect the condition of the bank.

In a removal action pursuant to 12 U.S.C. § 1818(e)(1), the OCC alleged unsafe and unsound lending activities in the bank's installment loan operations. The bank's president was responsible for direct and indirect used car financing, including dealer floorplanning. He had the bank buy car loans with insufficient knowledge or investigation of the creditworthiness of the buyers and permitted the car dealers to repossess and resell financed autos with additional bank financing without repaying or reducing the outstanding first loan. Floorplan financing of used car dealers was done without inspection or verification of the inventory of automobiles constituting the collateral. The collateral was often missing or in poor condition.

The president had also made loans on real estate lots in a mobile home park. These loans were found to be made to minor children or stepchildren of the developer and other incompetent individuals. This series of suspicious transactions benefited the developer (one of the used car dealers).

The president had involved the bank in these lending practices for several years. The large number of installment loans and extensive floorplan financing ultimately resulted in losses of more than $2 million to the small bank (assets of less than $25 million). Because the dollar amount of individual car loans was below the level required by bank policy for individual board review, and because the president and the used car dealers apparently acted to refinance and otherwise conceal overdue loans from board scrutiny, the mounting losses were undetected until discovered by the National Bank Examiners.

The president was terminated by the bank and a suit was instituted by the bank to recover the losses. The president consented to a lifetime removal under 12 U.S.C. § 1818(e)(1).

In a civil money penalty proceeding involving another bank, the chief executive officer (CEO) paid a penalty of $7,500; two inside directors each paid penalties of $2,000; and two outside directors each paid penalties of $1,000 for violations of 12 U.S.C. §§ 371c and 375b and an order to cease and desist. In addition, the CEO agreed to a personal cease and desist order which prohibited his participation in the daily affairs of the bank.

The CEO, who was also the principal shareholder, had twice overdrawn his account for large amounts to make payments on bank stock loans. One of these overdrafts was not cured for 60 days. In addition, the CEO and the board violated the cease and desist order which prohibited the CEO from performing any lending functions at the bank. The board had permitted the CEO to serve as a lending officer and many of the loans he made resulted in loss to the bank.

In a combined civil money penalty and removal action involving a failed national bank, the former president and CEO was removed and agreed to pay a penalty of $100,000 for violations of 12 U.S.C. §§ 84, 375a, and 375b, as well as unsafe and unsound banking practices. The respondent had made loans in excess of the bank's § 84 legal lending limits to three borrowers. These loans resulted in losses of over $900,000, which were sufficient to cause the bank's failure. The largest violation was a series of combinable loans extended to a borrower who had a contract to purchase control of the bank. This line of credit was more than three times the bank's legal lending limit. The other § 84 violations also consisted of combinable loans. In one credit line, the combination of a standby letter of credit with a purchased participation placed the loans well in excess of the lending limit. In the other line of credit, the respondent extended two loans, one to a corporation and one to its president, for the purchase of an existing business. The loans were for the same purpose and had the same source of collateral and repayment. The bank suffered extensive losses when the business failed.

Respondent also received loans which violated 12 U.S.C. § 375a and 375b because of the amount of the loans and the preferential terms. The respondent also voted for preferential loans to other directors. Finally, the respondent was the beneficiary of several nominee loans. As lending officer with the authority to make loans up to the legal lending limit with no prior board approval, he made loans to several acquaintances who then gave all or most of the loan proceeds to the respondent. The bank suffered losses of over $100,000 on these loans.

In a proceeding in which the OCC chose to exercise its suspension power pursuant to 12 U.S.C. § 1818(e), the agency suspended and removed a national bank's former president for authorizing approximately $4,000,000 in unsafe and unsound real estate loans. The loans were made to a related group of borrowers and the proceeds were to have been used for the purchase and rehabilitation of dilapidated multifamily dwellings. The OCC considered the loans unsafe and unsound because they were made on the basis of altered and inaccurate appraisals, were secured by insufficient collateral, involved 100 percent financing and were otherwise unfavorable. The loans posed a risk of substantial loss to the institution.

In a proceeding brought against a bank, the OCC filed an action in U.S. District Court to enforce an article in an amended cease and desist order which required the bank to achieve a 5 percent ratio of equity capital to total assets. An examination of the bank disclosed that it was operating with an equity capital ratio of approximately 1.6 percent. At the hearing, the parties entered into a consent order which allowed the bank 35 days in which to make the required injection. Shortly thereafter, the OCC issued a temporary cease and desist order against the bank which required it to collect $1,000,000 in overdrafts from its majority shareholder, verify the existence of over $30,000,000 in bearer bonds pledged as collateral and set up borrowing lines from the Federal Reserve. The bank was declared insolvent and closed following the issuance of the temporary cease and desist order.

In a civil money penalty action involving violation of 12 U.S.C. § 371c, a national bank's chairman and major shareholder agreed to pay the OCC a penalty of $8,000 and two directors agreed to penalty payments of $3,000 each. The bank was found, under the guidance of these respondents, to have made $750,000 of loans to the two brothers of the chairman. These loans were secured by the stock of a company owned by the chairman. The purpose of the loans was to purchase additional shares in the chairman's company.

Finally, in a combined removal and civil money penalty action, a national bank's former president and former senior vice president agreed to penalties of $5,000 each for their alleged participation in a scheme in which the former president and former senior vice president, along with a third individual, used the bank's own funds to acquire control of the bank. The OCC also obtained a stipulated lifetime removal of the former president based upon his primary involvement in these activities. The former president authorized loans to six out-of-area companies, and used the proceeds to purchase a note secured by the bank's stock. The loans violated 12 U.S.C. §§ 84 and 375a, and would have resulted in a loss of over $1,000,000 if a third party had not purchased the six notes in connection with his acquisition of the bank.

Community Reinvestment Act

The OCC is required by the Community Reinvestment Act, 12 U.S.C. 2904, *et seq.*, to include in its annual report to Congress a description of its CRA enforcement efforts for the past calendar year. CRA mandates that the agency must assess each bank's record of helping to meet the credit needs of its entire community including low- and moderate-income neighborhoods, to take such record into account in any evaluation of an application for a deposit facility and to encourage banks to help meet the credit needs of their communities.

In 1987 the OCC implemented a new approach to examining for compliance with laws and regulations including CRA, fair lending and consumer protection laws, the Bank Secrecy Act, bank dealer activities, the operation of electronic data processing centers and the adherence to sound fiduciary principles in the performance of fiduciary powers. The Compliance Program's basic premise is to promote compliance as a bank management responsibility and is achieved through five components.

The first component of the Compliance Program is to conduct thorough and consistent examinations of a stratified random sample of banks. Examiners conducting compliance examinations assess the bank's policies and procedures designed to ensure compliance. The uncertainty associated with being selected in the sample provides an incentive for compliance.

The second component focuses on the OCC's efforts to inform bank management of their compliance responsibilities. In 1987, four issuances, or advisories, were distributed to the national banking industry covering a broad spectrum of issues including speculative trading activities, disclosure of the method of calculating interest on deposit accounts (the investible balance issue), banks' investments in government securities mutual funds, and home equity lines of credit. In addition, through the Consumer Activities Division, the OCC provided speakers for over 30 seminars and training sessions sponsored by trade and state banking associations promoting compliance with consumer-related laws and regulations. Of particular importance was the OCC's participation in the American Bankers Association (ABA) "Bank Compliance Symposium," which was televised to over 3,000 bankers and included segments specifically on CRA. Compliance Department staff also participated in ABA's first National Compliance Conference attended by over 500 senior bank managers and discussed the Compliance Program Program and CRA.

The third component encompasses the OCC's efforts to simplify compliance responsibilities. For example, a microcomputer program now makes it much easier to compute accurate annual percentage rates, in conformity with the Federal Reserve Board's Regulation Z. Other computer programs are being developed that will simplify compliance with other regulations.

Fourth, based on the information gathered during the compliance examinations, the OCC is developing off-site evaluation techniques. Analysis of the examination data will be used to determine if there are certain characteristics that indicate the quality of compliance performance.

Enforcement Efforts

Banks may be given CRA ratings ranging from 1 to 5. A rating of 3 is given to banks whose CRA performance is less than satisfactory; a 5 rating represents a substantially inadequate record of helping to meet community credit needs. In 1987, over 1,250 national banks were examined for compliance with CRA and of those, 59 received CRA ratings of 3, 4, or 5.

Pursuant to the law, the OCC must consider the CRA performance of national banks when evaluating their corporate applications. Of the over 1,200 CRA related corporate applications received in 1987, nine were protested. Five of the nine protested applications were approved; four are still pending.

The OCC may also condition its approval of a bank's corporate application on specific requirements to strengthen CRA performance. The OCC believes that the use of conditioned approvals is more effective in securing such improvement. During 1987, the OCC conditionally approved 10 corporate applications, none of which involved protested applications. There were no denials of corporate applications.

Other CRA Related Activities

The OCC's Customer and Industry Affairs Division also provides encouragement to banks through an ongoing program of activities to increase the banking industry's sensitivity to customer and community needs. Their efforts during 1987 are summarized on page 47.

Comptroller's Report of Operations — 1987

Comptroller

The Comptroller supervises over 4,600 federally chartered national banks through a nationwide staff of bank examiners and other professional and support personnel. These banks account for approximately two-thirds of the assets of the commercial banking system. Additionally, the Comptroller also supervises the federally licensed branches and agencies of foreign banks.

The Comptroller is advised on policy issues by a policy group consisting of the Senior Deputy Comptroller for Bank Supervision Policy, the Senior Deputy Comptroller for Bank Supervision Operations, the Senior Deputy Comptroller for Corporate and Economic Programs, the Senior Deputy Comptroller for Administration, the Senior Deputy Comptroller for Legislative and Public Affairs, the Chief Counsel, and the Special Adviser to the Comptroller. Besides advising the Comptroller on policy issues, the Policy Group meets informally to discuss possible action on complex, controversial or highly sensitive issues which could significantly affect the OCC, its employees, or the banking industry.

The Comptroller's personal staff directs, coordinates, and manages the day-to-day operations of his Office and advises him on policy formulation and management decisions. The staff also develops the framework for, and monitors and manages projects of special interest to the Comptroller. The Comptroller's Executive Assistant acts on the Comptroller's behalf in carrying out policies and directions and by providing liaison with OCC personnel and other agencies.

Special Adviser to the Comptroller

The Special Adviser to the Comptroller provides the Comptroller with advice and assistance on a wide range of banking matters including the long-range implications of new developments and trends in the banking and financial industry. Among other issues, the Special Adviser is concerned with developing greater coordination between private auditors and bank supervisors, developing better information for bank directors to fulfill their responsibilities, helping problem banks deal successfully with their operating problems and studying alternatives for the banking industry's future role as a provider of financial services. The Special Adviser also represents the Comptroller at key business and industry leader meetings.

Senior Deputy Comptroller for Legislative and Public Affairs

The Legislative and Public Affairs Department provides information to and works with those outside the OCC to further the agency's goals. It is responsible for external relations with banks and banking organizations, Congress, the public, news media, bank customers and nonbank financial industry groups. In addition, it manages the Community Development Corporation program. The department includes the Banking Relations, Communications, Customer and Industry Affairs, and Congressional Liaison divisions.

Senior Deputy Comptroller for Bank Supervision Policy

The Senior Deputy Comptroller for Bank Supervision Policy formulates, implements and monitors supervisory and compliance policies and procedures; conducts analyses of international banking issues; formulates rehabilitative solutions for troubled and failing banks; and coordinates OCC's supervisory systems and information activities. These responsibilities are effected through the offices of the Deputy Comptroller for International Relations and Financial Evaluation, the Deputy Comptroller for Compliance and the Chief National Bank Examiner. The Senior Deputy Comptroller also supervises the OCC's Deputy Director to the FDIC, who acts as liaison between the two agencies and provides the Comptroller with information he needs as a Director of the FDIC.

Senior Deputy Comptroller for Bank Supervision Operations

The Senior Deputy Comptroller for Bank Supervision Operations oversees the six district offices and the Multinational Banking Department.

The Senior Deputy formulates and implements a broad range of policies and procedures relevant to the effectiveness and efficiency of OCC's district offices and the Multinational Banking Program. Specific responsibilities include directing programs and policies for the supervision and regulation of national banks to promote the continuing existence of a solvent and competitive national banking system. The Senior Deputy Comptroller for Bank Supervision Operations is also responsible for directing the examination, supervision, and analysis of multinational and regional banks including international banking activities.

Senior Deputy Comptroller for Corporate and Economic Programs

The Senior Deputy Comptroller for Corporate and Economic Programs advises the Comptroller on policy matters, develops and implements programs related to corporate activities and strategic planning, and conducts economic research and financial analyses. The Senior Deputy is the primary decisionmaker responsible for national bank charter and merger applications and other national bank applications relating to corporate activities. The Deputy Comptroller for Bank Organization and Structure and the Deputy Comptroller for Economic Analysis and Strategic Planning are supervised by the Senior Deputy Comptroller for Corporate and Economic Programs.

Senior Deputy Comptroller for Administration

The Senior Deputy Comptroller for Administration is responsible for the efficient administrative functioning of the OCC. Through the Deputy Comptroller for Resource Management and the Deputy Comptroller for Systems and Financial Management, the Senior Deputy supervises the Human Resources, Training and Development, Administrative Services, Operations Analysis, Equal Employment Programs, Information Systems and Technology, Management Systems and Technical Services, and Financial Management divisions. District administrative functions are provided with staff assistance and guidance by Washington Office units.

Chief Counsel

The Chief Counsel advises the Comptroller on legal matters arising in the administration of laws, rulings and regulations governing national banks. The Chief Counsel directs all legal functions in and for the OCC. Those duties involve writing and interpreting legislation, responding to requests for interpretations of statutes, regulations and rulings, defending the Comptroller's actions challenged in administrative and judicial proceedings, supporting the bank supervisory efforts of the Office and representing the OCC in all legal matters. Those responsibilities are carried out through supervision of the Enforcement and Compliance, Legal Advisory Services, Litigation, Securities and Corporate Practices, and Legislative and Regulatory Analysis divisions, and an organization of counsels in the OCC's six districts.

Bank Supervision Policy

Special Supervision

The responsibilities and emphasis of Special Supervision continued to evolve during 1987 both philosophically and practically in view of the high level of problem banks. Special Supervision is responsible for supervising the most critical banks, monitoring failing banks and coordinating bank closings. Since 1981, the number of banks requiring special supervision had steadily increased. This trend finally subsided during 1987 although there is still a significant number of problem banks.

The division's responsibilities are now focused on providing expert guidance and consultation on problem bank issues to district offices and other OCC personnel. Directing the division's attention away from daily involvement in less serious problem bank situations has enabled it to focus on the broader role of researching and developing supervisory tools to deal more effectively with problem banks. The division promotes flexibility in the supervision of national banks. A primary objective is to deal with each bank individually and to employ the various enforcement and administrative tools available.

The division continues to be the focal point for supervising and managing most critical bank situations in which the potential for failure is high. During 1987, the division supervised the closing of 61 national banks. All but seven of these closings were followed by a purchase of assets and assumption of liabilities or a transfer of insured deposits to other institutions.

Special Supervision is taking a more anticipatory approach to its attempt to resolve critical bank situations. Division personnel often work closely with potential investors, the bank board of directors and the Federal Deposit Insurance Corporation in arranging financial assistance for a troubled bank.

Supervisory Systems

The Deputy Comptroller for Supervisory Systems oversees the design, development, enhancement, and maintenance of supervisory information systems and information

activities; coordinates and promotes the development of analytical techniques using advanced technology; and fosters confidence in supervisory processes and information through a quality improvement process.

Quality Assurance

The Quality Assurance Division began operations in 1987. During the year, the division researched quality concepts, established liaison with the district offices, evaluated efforts undertaken within the private sector and other government agencies, and gave OCC senior management a recommendation regarding structure and direction for the quality assurance program. The division will develop a program in early 1988 and implement it in at least one district and one Washington division during the year.

The division will develop an effective measurement system, define clear product and service requirements for key areas, and establish a quality monitoring and review process. The Quality Assurance Division will serve as a consultant/liaison for the districts and Washington divisions in providing education, and implementing and monitoring the quality process.

Supervisory Information

The Supervisory Information Division supports OCC supervisory functions by administering and enhancing mainframe supervisory information systems, integrating them through training and active communications and improving the integrity of supervisory information to foster confidence in supervisory processes.

In 1987, the division concentrated its efforts in implementing the Supervisory Monitoring System (SMS) nationwide and improving national bank and bank holding company call report information. Supervisory Information continues to be a focal point for designing, developing and maintaining the OCC's point for designing, developing and maintaining the OCC's Supervisory Information Systems (SIS). The systems developed and enhanced in 1987 to support expanding supervisory needs within the OCC include:

- The Automated Examination-Generated Information System (AEGIS) — a data base of objective and subjective information about the policies and administrative controls used by financial institutions and other regulated entities.

- The National Bank Surveillance Video Display System (NBSVDS) — a data base that includes quarterly ratios and financial information from reports of condition and income, information on bank holding companies, examination results and other regulatory information.

- The Community Bank Scoring System (CBSS) — an automated system used since July 1985 to identify potentially unstable community banks for early warning analysis.

- The Supervisory Monitoring System (SMS) — an automated system used to record the supervisory history and plan for each institution regulated by the OCC.

The division is also responsible for determining that the data in the Supervisory Information System is accurate, timely and complete and recommending procedures to ensure its integrity.

Supervisory Research

Supervisory Research identifies, researches and develops new techniques and microcomputer technology to improve the OCC's supervisory process. Specific activities include developing financial modeling and advanced offsite analysis techniques; testing various software tools; and analyzing and making recommendations on proposals for technological applications for bank supervision.

Computer technology plays a significant role in the OCC supervisory process. New technology has given examiners direct access to data bases, downloading, data processing, and word processing. The availability of this technology enhances the efficiency and effectiveness of the OCC's supervisory functions.

Major projects in 1987 included administering the OCC Microcomputer User Group; initiating an expert system project; training on financial modeling applications; and researching and developing interest rate risk analysis. The OCC Microcomputer User Group was formed to coordinate the development of innovative microcomputer applications throughout the agency. The user group library contains over seventy microcomputer applications.

Research and development continues in the area of new techniques. The early warning systems such as the CBSS and the FDIC EMS/CAEL system were reviewed and results compared to a CAMEL projection model. In addition, maintenance and improvements are provided for the UBPR Update, Margin Model, OCC1A Forecasting Model, and Capital Projection Model. All of the applications incorporate Call Report data downloaded from the OCC's mainframe computer.

Chief National Bank Examiner

The Office of the Chief National Bank Examiner provides support for the OCC's supervisory efforts by advising district and field staff on banking operations, automated systems, accounting, and on-site examination procedures

The Office also helps develop examination approaches to new issues confronting the banking industry and supervisory personnel. Reporting to the Chief National Bank Examiner are the Bank Accounting Division, the Commercial Activities Division, the EDP Activities Division, and Special Assistants.

The CNBE's office coordinates all OCC participation in the activities of the Federal Financial Institutions Examination Council and its various task forces, and organizes briefings for the Comptroller and the Senior Deputy Comptroller on FFIEC issues. During 1987, the CNBE's office, in conjunction with Supervisory Systems, was instrumental in establishing the system which will allow banks to transmit their Call Reports electronically. The Office coordinated several changes in the interagency Call Report, including those necessary to implement the statutorily mandated program to allow the deferral of losses on certain agricultural loans.

Commercial Activities

The Commercial Activities Division identifies issues and trends in the financial services industry and banking operations, develops and updates policies for bank supervision, and evaluates the effectiveness of and compliance with these policies. In addition, the division revises and updates the *Comptroller's Handbook for National Bank Examiners* and administers the Uniform Commission Examination for national bank examiners.

The division also acts as liaison with other regulatory agencies, the banking industry and other related groups on commercial activities policies and procedures. In 1987 the division led or participated in interagency task forces addressing financial disclosure, the Bank Secrecy Act, capital forbearance, and real estate appraisals. Division staff worked closely with Treasury's Financial Enforcement Office regarding Bank Secrecy Act compliance and with the Federal Home Loan Bank Board in its development and revision of regulations relating to various lending areas. The division frequently develops data and text for use in Congressional testimony, speeches, correspondence and reports. Members of the division participate on panels and as speakers for industry related seminars and meetings.

As part of its efforts to keep the industry as well as examiners informed, the division continued to help resolve problems relating to risk based capital, the Bank Secrecy Act, loan loss amortization on agricultural loans, and the legal lending limit.

Division personnel led or participated in several OCC task forces which addressed career opportunities with the OCC, legal lending limit concerns, real estate loan classifications, the civil money penalty process and the new compliance programs.

During the year, a wide variety of research projects and related policy issuances were initiated which focused on emerging areas of risk and innovation in the banking industry. These included studies and projects addressing the evaluation process of loan participation guidelines, legal lending limits, real estate investment activities, other real estate owned, agricultural loan loss amortization, capital forbearance, and the Bank Secrecy Act.

EDP Activities

The EDP Activities Division supports the Chief National Bank Examiner and Bank Supervision by developing policy on bank technology and information systems.

Issues of interest to the OCC are identified by the division through research and environmental scanning, industry liaison, technical consulting and training support. In addition, the division devotes a substantial portion of its resources to staying abreast of events and trends in the banking industry's use of technology.

Project managers work with other bank supervision staff to design, develop, test, and implement policies and procedures relating to technology and other bank supervision issues.

The division administers the Multi-District Data Processing Servicer Program (MDPS). This program is an interagency effort for supervising the largest EDP servicers of financial institutions. The program has been productive from both supervision and research perspectives. This program was expanded during 1987 and now includes comprehensive quality controls developed in the bank supervision quality control program.

Bank Supervision Quality Control was administered by the division during 1987. Peer reviews were conducted to assess the effectiveness of quality control efforts in each district and a report including recommendations was prepared for bank supervision management. At yearend responsibility for this project was transferred to the recently established Quality Assurance Division.

The division administers a data processing/information systems training program. This program provides career development opportunities for selected EDP examiners. Seven examiners graduated from the program this year as Certified Information Systems Auditors. This program ensures the agency has highly trained and experienced EDP examiners to supervise multinational and regional banks and MDPS centers.

The EDP portion of AEGIS (Automated Examination-Generated Information System) is administered by the division. This system contains information on the status of automation in the national banking system. It helps Bank Su

vision staff identify and analyze risks presented by automation. Several enhancements have been proposed and will be included in the system in 1988. Both the Federal Deposit Insurance Corporation and Board of Governors of the Federal Reserve System have access to the AEGIS system.

During 1987 the division director chaired the interagency EDP working group and participated in joint projects with the members of the Federal Financial Institutions Examination Council (FFIEC). These projects included updating three chapters in the *FFIEC EDP Examination Handbook*, conducting two symposiums on information systems topics, and holding a technology seminar for senior EDP examiners. Part of the handbook update included revising the examination workprogram. This revised process is currently being field tested.

An automated examination process was developed during the year. The division, working with the Southeastern District, developed intelligent examination software that is currently being field tested. This software is designed to assist examiners in conducting on-site EDP examinations. The system not only helps examiners during the information gathering phase of the examination but provides information on issues to be discussed with management during the exit review.

EDP Activities is the focal point for issues dealing with payment systems risk (PSR). During the year, division staff participated in interagency task force projects dealing with this issue. Policies and procedures were updated and training was provided to examiners preparing for the uniform commission examination.

The division also provided training support to bank supervision in the following areas: payment systems risk, district training conferences and the FFIEC technology seminars and symposiums.

Finally, the division conducted an examination of the OCC's data processing function, consulted with Multinational and Regional Banking on the scope of examinations and follow-up for multinational banks and consulted with Special Supervision on enforcement related activites.

Bank Accounting

The Bank Accounting Division develops accounting principles and establishes reporting practices for national banks and interprets these principles for the OCC and bankers, accountants and attorneys. The division also develops internal accounting education programs, and reviews and provides guidance for the preparation of financial statements included in merger proxy statements, offering circulars and registration statements. Additionally, the division represents the Office of the Chief National Bank Examiner in many OCC and interagency work groups including the FFIEC Reports Task Force.

The division maintains a close relationship with the Financial Accounting Standards Board (FASB), FASB Emerging Issues Task Force and the American Institute of Certified Public Accountants (AICPA) Banking Committee through frequent discussions with their representatives and attendance at many of their meetings. This ensures the division has an active role in setting accounting standards that apply to national banks.

Several significant accounting, reporting and supervisory issues were addressed by the division during 1987. The included loan fees, push-down purchase accounting, interest rate swaps, asset securitizations, discount accretion on nonperforming loans, mutual funds, independent audits and accounting for income taxes and issues related to the Tax Reform Act of 1986. Assistance was provided in developing responses to proposals for various international loan issues, including debt/equity swaps and several international loan restructurings. The division also directed a pilot program designed to foster improved communication and cooperation among bank examiners, independent auditors and bank personnel.

To facilitate an understanding of accounting principles, reporting requirements and accounting issues within the industry, division representatives presented the OCC's views at several banking and accounting conferences and served as instructors in formal training programs conducted at many district or field office conferences.

The division reviewed financial statements included in 177 business combination proxy statements (12 CFR 11.5 and 11.51), 44 offering circulars (12 CFR 16), and 6 registration statements on Forms F-1, S-14, or S-15 (12 CFR 11.4 and 11.41).

Compliance

Trust Activities

The Trust Activities Division identifies current issues and trends in the trust and related fiduciary services industry. It develops policies and procedures relating to the supervision of such activities in national banks. Technical support is provided to field examiners, district/field offices and other Washington Office divisions. External liaison is maintained with the fiduciary services industry. The division revises and updates the *Comptroller's Handbook for National Trust Examiners*, plans and oversees international fiduciary examinations, and performs various administrative functions.

The division contributed to or supervised numerous internal projects during 1987. These included revising trust

examination procedures after the introduction of the OCC's Compliance Program, participating in internal quality control reviews, participating in trust related enforcement actions, coordinating SEC/OCC supervision of stock transfer activities and a broad range of internal automation and MIS development activities. Division staff were extensively involved in both internal and external training efforts, including serving as lecturers or instructors for OCC, interagency and industry sponsored schools. Substantial work was completed toward automation of the OCC's introductory trust training courses. Division staff supported the Multinational and Regional Bank Supervision Division in overseeing the examination of domestic trust activities. Advice and assistance in enforcement and compliance activities involving trust examination matters were provided.

The division plans and oversees international examinations of national bank fiduciary activities. In 1987, the international fiduciary activities of two multinational banks with 16 branches, subsidiaries or affiliates were examined. The division processed 100 Annual Reports of International Fiduciary Activities.

During the year, the division processed 336 collective fund plans/amendments, including 189 documents for review and response. Thirty-one consumer complaints were handled by the division on fiduciary related matters. Thirty-six applications for fiduciary powers were reviewed and processed, including applications from three foreign federal branches. Eighty certifications of trust powers were issued. Requests to establish 11 trust service offices were approved. The division reviewed and processed 80 registrations or amendments to registration of the approximately 650 registered national bank stock transfer agents.

Consumer Activities

The Consumer Activities Division is responsible for developing policies and procedures for supervision of national bank compliance with consumer protection laws and regulations. It also assists in consumer compliance training for examiners and bankers. The division's staff also provides technical assistance to examiners and bankers and administers the OCC's consumer complaint program and the Fair Housing Home Loan Data System.

Division staff keep abreast of changes in financial products and services as well as laws and regulations and publish supplements to the *Comptroller's Handbook for Consumer Examinations* annually. Staff also drafts bulletins, circulars and advisory letters to inform examiners and the industry of changes as they occur.

In 1987, the division sponsored an Advanced Consumer Seminar for commissioned national bank examiners who will be conducting the consumer portion of the OCC's compliance program examinations. The seminar provided a forum for the participants to discuss consumer compliance issues with representatives from the banking community, consumer and community groups and senior management from OCC's Washington office. Division staff discussed changes in various consumer laws and regulations and the automated systems for tracking consumer complaints and consumer examination data.

During 1987, division staff members assisted in developing and implementing the OCC's compliance program which is based on the thorough examination of a randomly selected sample of national banks. Staff members made presentations regarding the basic tenets of the program to OCC's district management and staff, as well as to banking and trade associations.

The division continued to promote compliance with consumer protection laws. The staff participated in numerous outside speaking and teaching engagements with the banking industry and consumer and community groups. A revised version of the Annual Percentage Rate microcomputer program was distributed to the examining staff and the banking industry.

Investment Securities

The Investment Securities Division serves as the focal point within the OCC for policy analysis on matters relating to investment securities, and bank dealer and money market activities. The division formulates, implements, monitors and evaluates bank supervisory policy in these areas. The division coordinates and carries out the responsibilities imposed by federal securities laws as the responsible regulatory agency for national banks functioning as securities dealers. In addition, the division acts as liaison with the investment banking and securities industry, bank dealers, other regulatory bodies and the public with respect to investment securities, bank dealer and money market activities.

Trends and products in this segment of the banking industry continued to change rapidly in 1987. The division monitored and studied these changes and developed policies and examination techniques to ensure continued safe and sound bank operations in these areas. The division developed supervisory statements on the discretionary management of investment portfolios, trading in the investment portfolio, and mutual funds investment. Staff members contributed to the development and implementation of the Government Securities Act, *The Director's Book*, and the draft compliance examination procedures for securities dealer activities and discount broker activities.

The division continued to administer the Investment Securities Training program, which is designed to ensure that a high level of examiner expertise is available in this increasingly complex and innovative area. Division staff

also continued its commitment to other types of examiner training by participating as instructors or coordinators for a series of seminars on bank dealer and investment portfolio activities, options, securitized assets and interest rate swaps. The division's staff participated in numerous outside speaking engagements, which foster communications with the bank dealer and investment banking communities as well as the securities industry.

International Relations and Financial Evaluation

The Department of International Relations and Financial Evaluation (IRFE) was established in August 1983 to enable the OCC to identify and respond more effectively to the risks associated with the national banking system's international activities. The department is responsible for collecting and analyzing data on banks' foreign exposure. It regularly monitors events and economic conditions in countries where national banks have significant cross-border exposures. When necessary, it makes recommendations to the Comptroller, other government agencies, and the Congress on policies, regulations, legislation, or other appropriate actions with respect to the international activities of national banks.

IRFE also is responsible for OCC's international relationships with other U.S. government and multilateral agencies, bank supervisors in other countries and other members of the international financial community so that the OCC may share the information available through those bodies, and foster the development of a more effective and cooperative mechanism for supervising the international banking system.

During 1987, the department was the Secretariat to the Interagency Country Exposure Review Committee, a committee composed of representatives from each of the three federal banking agencies. The Committee met three times to evaluate and categorize the transfer risk associated with exposures to countries experiencing difficulty servicing their external debt. IRFE also developed regulatory responses to the 1987 debt reschedulings for Argentina, Brazil and Mexico, and studied financing alternatives for troubled debtor countries. In April 1987, IRFE staff testified before the United States Senate concerning regulatory practices affecting third world country debt. As in past years, the department provided technical assistance to bank supervisors in a number of foreign countries, either directly or through the World Bank.

Bank Supervision Operations

Multinational Banking

The Multinational Banking Department, established in 1979, is responsible for the direct supervision of all national banks owned directly or indirectly by the following companies: BankAmerica Corporation, Bank of Boston Corporation, Chase Manhattan Corporation, Citicorp, Continental Illinois Corporation, First Chicago Corporation, First RepublicBank Corporation, Marine Midland Corporation, Mellon Bank Corporation, Security Pacific Corporation, and Wells Fargo & Company. The department is also responsible for examining offshore branch activities, and supports the regional bank and federal branch supervisory programs of District Offices.

Normal supervisory activities include examining multinational banks' global operations, meeting with industry executives, and establishing capital levels and other supervisory mandates for multinational banks. As of September 30, 1987, the eleven multinational institutions and their affiliates held assets of $646 billion, 37 percent of the entire national banking system. The importance of the multinational institutions, aside from sheer size, is reflected in their worldwide operations, their key role in the domestic economy, and their leadership in the evolving global financial services marketplace.

The Multinational Banking Department also decides or recommends action on all corporate applications filed by the banks under its supervision. In the international arena, federal branch licenses were approved for three European banks, fiduciary powers were granted to two Middle Eastern banks and one European bank, and voluntary liquidations were initiated by three foreign banks. During 1987, the multinational banks increased their levels of corporate activity markedly. Two noteworthy decisions were the liberalization of the limits established in OCC Interpretive Letter 355 regarding the ability of bank operating subsidiaries to enter into partnerships, and conditional permission for a bank to establish an operating subsidiary for the purpose of becoming a registered broker/dealer and market maker to hedge the bank's positions in OTC options on foreign currencies and Eurodollar time deposits.

At the end of 1987, the department was consolidated into two divisions in order to concentrate resources into distinct staff and line units. Multinational and Regional Bank Analysis provides financial analyses of the largest U.S. and foreign financial institutions, monitors market changes and developments, conducts research and special studies, and

recommends supervisory responses to emerging or identified risks which affect the multinational institutions as a group. The division works closely with other U.S. and foreign supervisors in order to respond to systemic risks. These efforts provide a foundation for the department's supervisory response to initiatives or weaknesses among the multinational banks.

The Multinational and Regional Bank Supervision Division is responsible for the direct supervision of the individual multinational banks. Specific responsibilities include evaluating the condition and performance of the individual multinational institutions, formulating and implementing examination strategies, and making decisions or recommendations on corporate and licensing applications. Additional functions include the administration of the shared national credits program, and support of regional bank and federal branch supervisory programs of the six district offices. The division consists of both Washington staff and a select cadre of field examiners based in Chicago, Dallas, London, Los Angeles, New York, Boston, Pittsburgh, and San Francisco. An advisory committee, selected from the field cadre, was established in 1987 to improve the department's ability to identify and respond to risks affecting the multinational banks.

The department's philosophy is to take an ongoing and anticipatory approach to the examination process. Department examiners are permanently stationed in each multinational lead bank to facilitate communication and information exchange, thereby enhancing the department's ability to promptly identify and address emerging issues and risks.

Supervisory strategies are developed annually for each of the multinational companies and revised as circumstances dictate. In developing strategies, emphasis is placed on evaluating the level of risk in a specific institution, and devising a plan to monitor the risks. Supervisory strategies encompass both on-site and off-site analyses, and relate closely to macroeconomic factors and marketplace developments. Off-site analysis has been enhanced by improved automated systems and communications and increased contacts with market participants and analysts. At a minimum, resident examiners update the OCC's Supervisory Monitoring System quarterly regarding the condition of the lead bank. On-site analysis is focused on a series of examinations targeted at specific areas of identified or perceived risks affecting individual multinational companies or the multinational banking system as a whole.

During 1987, examination efforts were directed toward assessing the multinationals' strategic plans, asset quality, internal audit risk review systems, fiduciary activities, compliance, capital markets initiatives, and foreign exchange trading. Compliance examinations utilizing the OCC's Compliance Program Examination Procedures were conducted at five of the multinationals; the remainder will be completed in 1988. New supervisory techniques and approaches were developed in several areas, including investment banking and trading activities, interest rate risk management, and real estate lending and foreclosed property procedures. The department also redesigned the supervisory program for federal branches and assisted in the development of a risk-based approach to capital adequacy.

Corporate and Economic Programs

Bank Organization and Structure

Bank Organization and Structure (BOS) establishes and implements policies affecting corporate activities of national banks, and analyzes and processes requests from individuals and banks to engage in banking activities. Since the comprehensive review and streamlining of licensing policies and procedures in recent years, BOS has worked to identify, help draft and promote legislative proposals to reduce paperwork and regulatory burdens on banks and the Office. In 1987, licensing delegations to the district offices were revised and expanded. The department monitors OCC's overall licensing function and continues to enhance the quality control and information systems that support increasingly decentralized licensing operations.

Licensing Policy and Systems

The Licensing Policy and Systems Division develops and implements general policies and procedures governing the corporate activities operations of the OCC. The division also coordinates the OCC's licensing quality control program, and oversees the Licensing Information System, a computerized system for monitoring corporate operations.

In the policies and procedures area, the division strives to reduce paperwork and regulatory burdens on applicants, and to improve the efficiency and effectiveness of the OCC's corporate activities operations. During 1987, the division completed several initiatives consistent with these objectives. Major accomplishments included

- Drafting a set of proposed statutory housekeeping amendments that would significantly reduce the regulatory burden on applicants. The OCC will pursue enactment of the amendments in 1988.

- Developing a new process for handling corporate reorganization mergers, in cooperation with the Department of Justice. The new process reduces the processing time for corporate reorganization mergers by about 50 percent.

- In a joint effort with the Securities and Corporate Practices Division, developing a new procedure that enables the OCC to make its decision on a merger earlier in the process. The new procedure will provide many merger applicants the opportunity to consummate their transactions immediately or very soon after shareholder approval. Previously, preliminary approval was not granted until after the shareholders' vote and consummation was delayed by a 30-day waiting period.

- Extending additional authority to act on applications to the district offices during 1987. As a result, 90 percent of the applications are decided by the district offices. The time and exposure of a Washington office review are eliminated for the OCC and most applicants.

- Developing guidelines, applications, and other documents for chartering bridge banks, federally chartered banks established to acquire and operate failed banks until the failures are satisfactorily resolved. The first bridge bank, Capital Bank, N.A., was chartered in October 1987.

- Working in conjunction with the Information Systems and Technology Division and the district offices, the division installed a new system in July 1987 to update the OCC's automated bank structure record data base from the Licensing Information System. This system replaced a cumbersome and unreliable paperbased system for updating the structure record data base. The new system provides more timely updates, requires less manpower, and improves the accuracy of the data base information.

- The division thoroughly revised the *Comptroller's Manual for Corporate Activities.* New policies and procedures benefitting applicants were included in chapters covering mergers, corporate reorganizations, changes in equity capital, branches, relocations, and CBCTs. Additional improvements were made in response to comments from the district offices and applicants.

The division also monitored corporate activities operations through the Licensing Information System and a comprehensive quality control program. The Licensing Information System produced the OCC *Weekly Bulletin,* summary tables for the OCC *Quarterly Journal*, and a variety of quarterly and annual statistical summaries of the OCC's corporate activities operations. Under the quality control program, corporate activities operations were reviewed in the six OCC district offices and the Multinational and Regional Bank Supervision Division in Washington.

Corporate Activity

The Corporate Activity Division processes and decides applications involving structure changes for national banks. Applications are processed in accordance with policies and procedures set forth in 12 C.F.R. 5 of the *Comptroller's Manual for National Banks* and the *Comptroller's Manual for Corporate Activities.*

The division processes applications for new bank charters, consolidations, mergers, corporate reorganizations, conversions of state banks to national banks, operating subsidiaries, branches, customer-bank communications terminals (CBCTs), office relocations, changes in capital, and Federal branches and agencies of foreign banks. The division also evaluates and processes notices of change in controlling ownership of national banks and appraises stock held by shareholders dissenting to a merger in order to determine its fair value. The Corporate Activity Division is responsible for coordinating district and Washington Office processing of corporate applications.

The following table shows the applications received and decided upon in 1987:

1987 Decisions

	Received		Districts	Washington		
Application Type	*1986*	*1987*	*Approved*	*Approved*	*Denied*	*Total*
Charters	82	107	67	6	10	83
Conversions	19	36	25	8	0	33
Mergers	146	165	120	39	0	159
Corporate Reorgs.	254	286	197	51	2	250
Change in Control	64	60	25	16	8	49
Branches	851	895	845	36	3	884
CBCTs	485	532	524	2	0	526
Relocations	202	237	210	10	2	222
Operating Subs.	179	163	135	16	0	151
Fiduciary Powers	37	33	27	5	1	33
Capital	518	411	361	32	7	400
Federal Branches	7	9	3	6	0	9
Stock Appraisals	19	11	0	7	0	7
Total	2,863	2,945	2,539	234	33	2,806

The number of applications filed with the Office during 1987 was slightly higher than 1986. The greatest percentage increases were in charter, conversion, merger, cor

porate reorganization relocation and federal branch filings The Midwestern and Southwestern Districts and the Multinational Department accounted for the bulk of the increase in corporate filings. In spite of the fact that the Office closed 61 banks in 1987, which was a record number there was still a 30 percent increase in the number of applications to charter new banks. Also, applications to convert to national banks showed an 89 percent increase. The increased charter activity came primarily from the Southeastern and Western Districts.

As the number of filings increased, so did the number of applications that were considered novel or precedential. This factor, coupled with the increase in the number of applications from banks requiring special supervisory attention, limited the number of applications that were decided by the districts under delegated authority. Nonetheless, 90 percent of OCC's licensing decisions were made by the district offices. Summaries of noteworthy 1987 decisions follow. Some of this information has appeared in previous issues of the *Quarterly Journal*.

On January 22, 1987, the Office denied an application from Western Security Bank, National Association, Toluca Lake, California, for permission to issue a stock dividend. Applicant proposed to pay a stock dividend even though the bank had a negative balance in its undivided profits account. This was considered contrary to Office policy which requires stock dividends to be effected by a transfer of undivided profits to the capital stock account. The Office would consider permitting a stock dividend from surplus if the applicant had previously made transfers from undivided profits to surplus and then, only to the extent of the previous transfers.

The Office, on February 17, 1987, approved a novel subordinated debenture proposal. Nolte National Bank of Seguin, Texas, requested permission to issue a $2 million, 9.8 percent subordinated note to its parent. The novelty of the transaction was that the bank lent the $2 million to its parent. The loan was fully secured by $2 million in GNMA securities, which kept the transaction within the guidelines of 12 U.S.C. 371c and 12 U.S.C. 84. The transaction was structured in this manner because the parent issued approximately $25 million in 9.625 percent notes and before the funds could be downstreamed to its 16 banking subsidiaries, interest rates started to fall. As a defense, the funds were reinvested in GNMA securities leaving the parent with GNMA's instead of cash.

On March 1 1987, the Office approved an application from Wells Fargo Bank, National Association, San Francisco, California, to purchase certain assets and assume certain liabilities of the consumer trust division of Bank of America National Trust and Savings Association, San Francisco, California. This proposal involved a product (trust services) that the Office had never before considered in a merger analysis as a "stand alone" product. The relevant geographic market for the merger was considered to be the state of California. Wells possessed the largest share of personal trust and estate business, with Bank of America ranking third. While Wells would remain the dominant offerer of consumer trust services in the market, the Office concluded that the market would remain highly competitive because of the many financial and nonfinancial institutions offering consumer trust services. Additionally, the ability of out-of-area providers to attract business and the influence exerted by brokerage houses, investment companies and other fiduciaries resulted in an active, competitive market that was not considered concentrated. The Office therefore concluded that consummation of the proposal would not have a significantly adverse effect on competition for consumer trust services in the state of California.

On March 27, 1987, the Office approved a series of applications related to Chemical New York Corporation's National Association, Houston, Texas (TCB-Houston) proposed to purchase the assets and assume the liabilities of Texas Commerce Bank-River Oaks, National Association, Houston Texas (TCB-River Oaks). In normal purchase and assumption transactions, the bank would go into voluntary liquidation and settle its affairs. In this transaction, however, TCB-River Oaks became an inactive, shell bank for a moment in time. TCB-Houston and other subsidiaries of TCB then paid a non-cash dividend to the parent in the form of non-performing assets. This served to "cleanse" the subsidiary banks of most, if not all, of their non-performing loans. The parent company then downstreamed these non-performing assets to TCB-River Oaks (the inactive bank) in the form of a capital contribution. Finally, the parent (TCB), as the sole stockholder of TCB-River Oaks, distributed all of the outstanding shares of the bank to its stockholders. The result of this transaction was to transfer the non-performing assets to TCB's shareholders in a manner similar to the FDIC's open-bank assistance program (transferring the loss and other bank problems to the owners of the bank as if the bank had actually failed). Chemical, as a result, acquired TCB on a relatively "fresh start" basis.

On March 31, 1987, the Office denied the application of First South Bank, National Association, Fort Valley, Georgia, for a branch outside its home county. Inter-county branching is not permitted under Georgia law to state-chartered commercial banks, but would be permissible for state-chartered thrift institutions. The Office had previously approved applications of this nature when the applicant had demonstrated that state-chartered thrifts were "carrying on the banking business," bringing them under the definition of state banks for the purposes of 12 U.S.C. 36 (see *Quarterly Journal*, Volume 4, Number 3, Decision of the Comptroller of the Currency on the Application of Deposit Guaranty National Bank, Jackson, Mississippi, to establish a branch office in Gulfport, Mississippi). In this

instance, the applicant failed to demonstrate that state-chartered thrifts in Georgia were carrying on the banking business.

The Office approved a new bank charter for Dial National Bank, Des Moines, Iowa, on May 27, 1987. The new bank is to provide credit card services and will be owned by Norwest Financial, Inc. The case raised branching questions since the applicant proposed to make cash advances and possible credit decisions at consumer credit offices of Norwest Financial, Inc., located in 42 different states. The Office concluded that these activities would be illegal because the offices would be considered branches of the proposed bank. The new bank application was approved with the understanding that the branching activities would not be performed as originally proposed.

On May 27, 1987, the Office denied a capital change application submitted by City Bank, National Association, Lubbock, Texas. The applicant requested permission to eliminate approximately $2 million in core deposit intangibles by reducing its capital stock and surplus. The Office concluded that such a proposal was in contravention of Office policy and GAAP (which requires such intangibles to be written off over a 10-year period).

On June 26, 1987, an application, submitted by Valley National Bank of Arizona, Phoenix, Arizona, to establish a mobile CBCT branch was approved. The branch will operate throughout Arizona at county fairs, sporting events, conventions, festivals, and at other events. In approving the application, the Office requested the bank to keep an internal log of CBCT operations and locations.

On July 21, 1987, the Office approved a noncash capital injection submitted by Liberty National Bank, Dallas, Texas. The applicant requested permission to change its capital structure by accepting 1.05 acres of land, adjacent to the bank, from its holding company in exchange for 136,000 shares of common stock at $10 per share. The Office determined the land was properly valued and that the applicant had adequately demonstrated that the bank would use the land in the day-to-day conduct of its banking business.

Also on July 21, 1987, the Office conditionally approved the purchase and assumption of Toy National Bank (Toy) by Norwest Bank, N.A., Sioux City, Iowa (Norwest). This application raised questions regarding the Office's policy of requiring the purchaser to assume all liabilities, including contingent liabilities, of the target bank when that bank goes into liquidation. This policy is designed to ensure that adequate protections are available to the creditors of the target bank. The application filed in March did not specify that all contingent liabilities would be assumed. After several discussions with the applicants, the Office agreed to review amendments to the applications designed to address the issues of contingent liabilities and creditor protection. Upon review of this information, the Office found no compelling reason to deviate from current policy The Office approved the application on the condition that the agreement between Toy and Norwest be amended to provide for the assumption of all liabilities, including contingent liabilities.

A notice of change in bank control was filed for a bank that was likely to fail without a substantial infusion of capital. Fraudulent activities by the bank's former CEO were substantially responsible for the bank's condition. Routine FBI namechecks and other sources turned up significant derogatory information concerning other companies and relationships of the purchaser. In conjunction with the Securities and Corporate Practices and Enforcement and Compliance divisions, the Corporate Activity Division performed an extensive background investigation. Recognizing that the Office had problems with the purchaser, and noting that the Office had extended the time for review of the notice of change in control, the bank terminated the agreement it had entered into with the purchaser. The notice was withdrawn before a decision was rendered.

On October 2, 1987, the Office approved applications for The National Bank of Commerce, Memphis, Tennessee (five applications) and The First National Bank of Livingston, Tennessee (one application) to establish branches in counties other than those in which the applicants' principal offices were located. Under the McFadden Act, 12 U.S.C. 36, national banks may branch to the same extent as state banks in the state in which they are located. Tennessee prohibits a state-chartered commercial bank from branching outside the county in which its principal office is located (although any bank in the state can branch into any of the state's four largest standard metropolitan statistical areas). State-chartered savings and loan associations, however, under specific conditions, enjoy statewide branching privileges provided that they have been chartered for a period of at least 5 years. Relying on the recent *Dept. of Banking and Consumer Finance of Mississippi v. Clarke*, 809 F.2d 266 (5th cir.), *cert. denied*, 55 U.S.L.W. (BNA) 3853 (June 22, 1987) *(Deposit Guaranty)*, the applicants argued that Tennessee-chartered savings and loan associations were "State banks . . . carrying on the banking business" for the purposes of 12 U.S.C. 36(h) and, therefore, they should be able to establish branches across county lines under 12 U.S.C. 36(c). Upon review, the Office determined that (1) Tennessee savings and loan associations are authorized to branch statewide under state law and (2) such associations are carrying on the business of banking making them "State banks" for purposes of 12 U.S.C. 36(h). Therefore, the Office concluded that national banks in Tennessee may branch to the same extent as Tennessee savings and loan associations, i.e., statewide, subject to the same conditions imposed on savings and loan associations under Tennessee law

Since that time the Office has approved additional cross-county branch applications for Tennessee (First American National Bank, Nashville, two applications approved on December 11, 1987 and First National Bank of Lexington, one application also approved on December 11, 1987). Other states where similar cross-county branches have been approved are Texas (Texas Capital Bank-Westwood, N.A., Houston, one application approved on December 3, 1987, and Union National Bank of Laredo, one application approved on December 3, 1987) and Louisiana (Louisiana National Bank of Baton Rouge, two applications approved on December 23 and 28, 1987, First National Bank of Lake Providence, one application approved on December 28, 1987, and Hibernia National Bank, New Orleans, three applications approved on December 3, 1987). Currently, there are similar applications pending from Michigan (1), Indiana (1), Missouri (1), New Mexico (1), Tennessee (2), Florida (1), Alabama (1), Oklahoma (3) and Louisiana (7).

The Office approved the formation of a second "distributive bank" similar to the one created in the Chemical acquisition of Texas Commerce Bank previously mentioned. On October 17, 1987, the Office approved a series of applications in connection with First Interstate Bancorp's acquisition of Allied Bancshares, Inc. As part of the merger agreement, Allied filed for permission to merge its 19 Harris County banks into one of its three national bank affiliates, with another national bank subsidiary to be used as a distributive bank. The sole purpose for the distributive bank was to acquire and liquidate approximately $250 million of non-performing assets currently on the books of various Allied banking subsidiaries. The Office approved this series of applications to facilitate the acquisition of Allied, which was in less than satisfactory condition at the time of the filing.

Conditional approval was granted on November 2, 1987, for principals of Pell, Rudman & Company, investment advisors, to establish a trust bank, Atlantic Trust Co., N.A., in Boston, Massachusetts. The proposed trust bank would provide financial and tax planning for wealthy individuals throughout the country. Applicants had proposed initial capital of $375,000 which the office believed was insufficient and not necessarily in accordance with previous decisions regarding capitalization of trust banks. The application was therefore approved conditioned upon applicant having $750,000 in initial capital, net of organizational expenses.

On November 30, 1987, the Office approved a corporate reorganization merger involving First National Bank, Covington, Louisiana and two of its affiliated banks. One bank, located in a different parish than the other two, was established in January of 1986 as a result of a purchase and assumption of a failed institution. Applicant proposed to operate this bank as a branch; however branch banking by acquisition in Louisiana is authorized only if the acquired bank is more than 5 years old. The Commissioner of Banking for the State of Louisiana advised this Office that the prohibition previously mentioned did not apply to instances in which a bank was chartered to take over a failed bank and that he would not protest an approval by the Office of such a proposal. The Legal Advisory Services Division agreed with the State's finding and the application was approved.

The Office denied, on December 17, 1987, an application in Texas designed to combine two affiliated Texas banks. Both of the banks were in less than satisfactory condition. The Office was concerned about the ability and willingness of existing directors and management to pursue and achieve a required recapitalization plan.

On December 28, 1987, the Office approved the application of Palatine National Bank, Palatine, Illinois, to purchase certain assets and assume certain liabilities of an affiliate, Suburban National Bank of Palatine. Both banks are owned by Suburban Bancorp, Inc., a multibank holding company. In effect, the purchase and assumption transaction created a "shell bank" that was immediately relocated to an adjacent market area. The relocation of the shell allowed Suburban Bancorp to enter a market where it could not establish a *de novo* branch.

On December 29, 1987, a proposal to establish a trust bank submitted by Anchor Savings Bank was approved. The proposed bank would assume the trust accounts presently being serviced in a separate department of Anchor Savings Bank. The Office believed that Anchor, a $7.3 billion dollar savings institution, had presented a reasonable plan for operating the proposed trust bank and its condition raised no supervisory concerns.

On December 29, 1987, the Office approved an application to convert MTrust, a state-chartered, non-FDIC insured, trust company, to a full service national bank whose activities would be limited to providing trust services. The proposed bank would immediately absorb the trust operations of 8 of MTrust's sister banks with another 12 trust departments to be phased-in at a later date. No commercial activities were planned for the proposed bank at this time. However, if the applicant decides to offer commercial banking activities, it must submit an operating plan to the Office for review and approval.

Several years ago, the Office granted conditional approval to Midlantic National Bank & Trust Co., Fort Lauderdale, Florida (Midlantic), to expand its powers beyond those of its fiduciary business. This approval was conditioned upon Midlantic's receiving approval from the Federal Reserve (for Bank Holding Company Act purposes) because it was a nonbanking subsidiary at the time. With the passage of the Competitive Equality Banking Act of 1987 (CEBA),

Midlantic notified the Office that under CEBA's amendment to the Bank Holding Company Act definition of a bank, it was now a grandfathered bank because it was FDIC-insured and did not qualify for the trust company exemption under CEBA. Midlantic argued that it could therefore expand its powers subject only to OCC's approval. In a letter to Midlantic, the Fed agreed that its approval was not required for the bank to expand its activities. On December 31, 1987, the Office informed Midlantic that the condition in our 1984 approval was satisfied and that Midlantic could expand its activities as requested in 1984.

Finally, on December 31, 1987, the Office approved an application submitted by First National Bank of Worthington, Worthington, Minnesota, which used an accounting technique designed to eliminate a deficit in undivided profits. 12 U.S.C. 60 permits a national bank to pay dividends only to the extent of net profits. The bank was purchased by a local group in June of 1987. However, losses which had been recorded from 1983 through 1986 resulted in a large deficit in its undivided profits account. As such, the bank could not pay dividends. By reducing its common stock through a reduction in outstanding shares, transferring that amount to surplus, and then revaluing its fixed assets (used to offset the negative balance in undivided profits), the bank was able to get permission to pay a dividend to the extent of subsequent earnings. This accounting technique, based upon Accounting Research Bulletin 43, Chapter 7A, requires some type of "fresh start" basis (either a merger or a change in banking control) and shareholder approval. The technique has been considered and approved by the OCC's Bank Accounting Division as appropriate for national banks.

Economic Analysis and Strategic Planning

Economic Analysis and Strategic Planning (EASP) supports the OCC's supervisory mission through research, analysis, and consultation on a wide variety of agency programs. Through the Economic & Policy Analysis, Industry & Financial Analysis, and Strategic Planning divisions, EASP provides input to most policy issues facing the OCC, analyzes the systemic risks affecting the banking industry, and coordinates the OCC's planning process.

Economic and Policy Analysis

The Economic and Policy Analysis Division (E&PA) promotes the policy objectives of the OCC through research and economic analyses of financial institutions and the financial services industry generally. The division's economists provide senior OCC officials with analyses and evaluations of proposals on banking issues made by other agencies, the Congress, and the public. The division also participates in interdivisional projects and, on request, helps with projects initiated in other divisions.

In 1987, E&PA devoted many of its resources to the analysis of the issues raised by removing current restrictions on businesses with which commercial banks may affiliate. A major product was an E&PA paper that presented a framework for reform that would permit a bank to conduct new activities in a subsidiary of the bank. That paper, which received substantial input from other divisions, was the basis for testimony before three Congressional committees on Glass-Steagall reform and for a report to Congress. The division also provided OCC senior staff analyses of many aspects of financial reform including comparisons of the risks, capital requirements, and profitability of banks and securities firms; and summaries and evaluations of proposals for financial reform by Congressional committees, other agencies, and the public. These analyses were also utilized in preparing OCC responses to Congressional and other inquiries. E&PA also devoted a significant portion of its resources to the preparation of Congressional testimony on additional topics in 1987. Topics included the condition of the banking system; FSLIC recapitalization; emergency acquisitions of failed and failing banks; the nonbank bank and South Dakota loopholes; new powers for bank holding companies; and funds availability practices at commercial banks.

E&PA also contributed significantly in 1987 to the development of a risk-based capital standard. In conjunction with Bank Supervision, the division drafted a proposed rule which was issued for public comment. Additional risk-based capital activities included evaluating the impact of the proposal; summarizing and evaluating public reactions to the proposal; and presenting the proposal to OCC senior staff and to trade groups. Division economists also participated in a joint effort with the Federal Reserve and the Bank of England to incorporate interest rate risk into the risk-based capital proposal.

E&PA's continuing economic research and analytic responsibilities include providing senior OCC staff, other OCC divisions, and other Treasury Department officials background information and analyses of developments affecting the banking industry. In 1987 these activities focused on the risk of interest rate and currency swaps; the use of duration analysis to evaluate interest rate risk; testing of new procedures for evaluating interest rate risk at the largest banks; interest rate risk; S&L funding and the recapitalization of the FSLIC; trends in bank profitability; off-site monitoring; and participation in a multi-phased study to determine the causes of bank failure.

Industry & Financial Analysis

The Industry and Financial Analysis Division analyzes systemic risks, maintains continuing surveillance programs, and supports bank supervision programs. The division includes an industry analysis unit responsible for assessing economic and business conditions and identifying and

analyzing industry risk and a financial analysis unit charged with analyzing the condition and performance of the banking system.

The industry analysis unit assesses business conditions and evaluates banking system exposure to problem industries. It supports bank examination and surveillance programs by identifying and analyzing industry risks and disseminating reports on sectors, industries, and credit products that pose new or unique risks to the banking system.

During 1987, the industry analysis unit began producing a quarterly publication that assesses business risk, highlighting those industries that are weak or experiencing serious deterioration. The unit prepared a commercial real estate study and related memoranda that assessed the extent of deterioration in that industry and the consequences for commercial banks. A study of home equity lending supported the Office's supervisory activities and served as the basis for continuing study. After a series of visits to major banks, a staff paper was prepared documenting the current state of industry analysis among the large banks. The division also hosted a meeting of Directors for Analysis and Environmental Analysts that served to improve communications between the districts and the Washington office staff.

The financial analysis unit monitors and analyzes the condition and performance of the banking system with special emphasis on national banks. The unit prepares periodic reports on trends in banking profitability, asset quality, funding and liquidity, and capital adequacy. The unit also drafts testimony and conducts research on bank performance.

During 1987, the financial analysis unit drafted Congressional testimony on the condition of the banking system and prepared the annual Condition of the Banking System report. This report provides a comprehensive historical record of the financial condition of insured commercial banks. This year's report highlighted three significant systemic trends—the persistent decline in bank profitability, the divergence in performance between banks located in the eastern half of the country and those located in the West, and the contrast in performance among the largest banks.

The unit also prepared a report on the operations of national banks for each issue of the OCC *Quarterly Journal*. These articles summarized the performance of national banks through the preceding quarter, often drawing comparisons among banks from the six OCC Districts. Each article was supplemented by a quarterly fact sheet, prepared by the unit, which offers a compact source of information for quick reference to bank structure and performance statistics.

In addition to these periodic reports, the unit also conducted research on bank performance. A study on consumer lending at commercial banks focused on credit card loans. That study assessed the profitability of credit card lending at banks in the context of credit quality considerations and funding costs.

Strategic Planning

The Strategic Planning Division identifies major issues facing the OCC; coordinates development, review and modification of OCC's Strategic Plan; ensures that OCC's long-term information systems plan supplements, and is consistent with, its Strategic Plan; facilitates efforts to address strategic issues and formulate contingency plans; fosters the integration of long- and short-term planning processes; and designs and administers systems for monitoring progress in accomplishing organizational goals and priorities.

During 1987, the division issued a revised Strategic Plan to reflect changes in the banking industry, its environment and the Office's internal operations. OCC's mission statement now makes it explicit that a safe and sound banking system requires both sound management principles and compliance with the law, and that customer and community needs must continue to be balanced with the need for efficient competition in the financial services market.

The division surveyed top OCC managers on their views of economic, financial and regulatory issues affecting the financial services industry as well as the OCC. Survey results provide a basis for setting future planning assumptions and identified key organizational concerns that will be addressed throughout 1988. As part of the division's ongoing assessment of external and internal events, several critical issues were targeted for contingency planning.

Significant attention was focused on improving the planning process by making it simpler and more meaningful. Progress was made in reorienting annual plans to focus on fewer, high priority action items and in integrating action plans with performance contracts. Additionally, the process of developing and consolidating action plans was automated; further refinements are expected in 1988. Strategic Planning played an active role in ensuring that the allocation of resources was consistent with organizational objectives and priorities. Long-term projections of work force needs were formulated and the division participated with the Financial Management Division in preparing a submission for the Department of Treasury and OMB on OCC's long-term objectives and increasing resource needs over the next 5 years.

During the year a comprehensive plan, consolidating the primary objectives of all Deputy Comptrollers, was

developed and distributed during the planning process. Management reporting systems were updated to reflect ongoing refinements to OCC's supervisory approach. Periodically, Strategic Planning provided monitoring and planning data to management throughout the organization. A major evaluation of the OCC's use and management of time reporting data was launched as well as a broader study on how to improve measures of organizational performance.

Administration

Resource Management

The Deputy Comptroller for Resource Management serves as a key advisor to the Senior Deputy Comptroller for Administration by participating in all matters pertaining to operations analysis, training and development, human resources and administrative services.

Human Resources

During 1987, the Human Resources Division successfully implemented innovative programs to support the OCC's mission. Efforts were directed toward supporting the supervisory approach, recruiting and retaining a high quality workforce, improving internal communication, and continuing to operate effectively and contain costs.

The supervisory approach was supported through enhancements to the staffing plan process. Duty station staffing plan benchmarks, or models, were updated to more accurately address workloads under the eight levels of the hierarchy of risk. District staffing plan assumptions were re-evaluated, resulting in guidelines more in line with local resource requirements.

In 1987, OCC's entry-level recruitment was strengthened by a new examiner selection process and a cadre of better trained recruiters. Recruitment information was improved through automated district tracking systems which will be linked to a more extensive mainframe program in 1988. The orientation program was recently expanded to ensure new employees are familiar with OCC functions as well as administrative procedures essential for performing their jobs. In 1988, greater retention as well as more optimum utilization of internal talent will be realized through implementation of a career planning program which better identifies opportunities and sets forth distinct career paths for key OCC managerial and technical positions. Much of the critical research on this program was completed in 1987.

Internal communication was improved through an expanded OCC Employee Attitude Survey. Unlike the previous examiner-only survey, the 1987 instrument reached all non-executive employees. Data from the survey was analyzed in-house, allowing more depth of analysis, better identification of specific concerns and direct involvement of district and Washington office staffs in local problem resolution. The next attitude survey is scheduled for the winter of 1988.

The Human Resources Division consolidated the staffing services and employee relations functions under the newly formed Washington Personnel Office. On site evaluations of human resources functions were conducted in the Northeastern, Midwestern, Western and Southeastern Districts to measure program and operational performance.

Aggressive cost-containment efforts resulted in renewal of most programs in the employee benefits package without accompanying cost increases. Although health benefits costs increased slightly, the rate of increase was signficantly below the industry average. In addition, the health plan was enhanced through a prescription drug program which begins in January 1988. The program reduces out-of-pocket expenses for prescription drugs and eliminates the need to file claims for their reimbursement.

Training and Development

The Training and Development Division educates and develops all OCC personnel in accordance with agency goals. The division's staff includes education specialists, employee development specialists, national bank examiners, and a psychologist. The staff is organized into bank supervision training, career development training and administration.

The Bank Supervision Unit is responsible for designing, developing, implementing, and maintaining bank supervision related training activities. This unit also provides information to districts and other OCC units on bank supervision related training. During 1987 this unit continued to develop computer-based training (CBT) programs, substantially completed the conversion of an introductory trust school to CBT, and began developing a bank analysis

course to be presented in CBT format. The unit was active in the initial training of field examiners in the use of the agency's Supervisory Monitoring System and has continued to revise on going courses as needed.

The Career Development Unit administers all training not related directly to bank supervision, including all executive and managerial training. The unit established the first OCC assessment center for managers which is run in conjunction with the USDA Graduate School. It also established a new computerized training information retrieval system for each district called EdVent. This sytem provides each training officer with up-to-date nationwide information on seminars and courses. The unit manages formal Career Development programs (such as the SES Candidate Program and the Director Candidate Program), and has recently redesigned the former Management Intern Program. The new program is now the CD I Program and allows participants to remain in their current positions, thus eliminating the requirement to move to Washington.

The Administrative Unit is responsible for preparing and monitoring the division's budget, processing all training requests, coordinating and scheduling training classes, issuing training announcements, arranging lodging for students and instructors from the Districts, and preparing and monitoring contracts and requisitions. In 1987, the division conducted 206 sessions of OCC and FFIEC training programs for 2,826 students and arranged for 1,633 courses outside the agency.

The Advisor for Educational Development functions as a consultant on training related issues and researches and develops programs or seminars to meet the special, specific needs of personnel within any district, division or team in the OCC. The advisor is available for consulting about and leading such programs, and identifying external consultants and vendors for programs already developed by the division. The Education Specialist for Evaluation acts as consultant to administrators of programs, helping identify both areas and instruments for evaluating training. The advisor makes recommendations, builds evaluative measures into the design of training programs and measures the effectiveness of OCC's training programs.

Administrative Services

The Administrative Services Division provides administrative support for the OCC in the areas of records management and library services; procurement and contracting; leasing and property management; printing and graphics; and building, property, and supply services.

New district offices in Atlanta and Dallas were designed, constructed and occupied in 1987. Construction was begun on the Northeastern District Office in the late summer, with occupancy scheduled for early 1988. During the year, the division managed 40 office construction projects nationwide. Additional cabling was installed in 62 district and field offices and duty stations to accommodate data processing and telecommunications equipment.

This year Administrative Services worked with the districts to develop proposals to improve the national filing system used by the OCC for bank records. The proposals will be implemented in 1988. In addition, a program to protect sensitive documents was established.

In 1987, OCC purchased a computer-operated card access system to improve security for OCC employees, documents, property and equipment. Installation is scheduled for the first quarter of 1988. Similar systems were installed in some of the new district offices in 1987 and will be installed in the others during 1988.

Administrative Services continued to provide professional administrative services to the OCC. The division is responsible for a wide range of day-to-day services, from administering the parking policy to responding to requests for administrative assistance from management. In 1987, 1,758 requests for purchases and contracts totaling almost $32 million were processed, with contract negotiations saving more than $800,000. Over 1,150 tons of supplies and publications were shipped to district and field offices and bank examiners. Approximately 1,850 graphics, 1,145 printing, and 1,600 reproduction requests were filled. The library responded to almost 3,000 requests for reference assistance, conducted 1,135 online searches, and purchased 593 new publications. The library staff also borrowed 850 publications for OCC employees from other libraries through interlibrary loans. The division also negotiated new leases for office space resulting in a savings of almost $9 million over the life of the leases.

Operations Analysis

The Operations Analysis Division is the agency's focal point for evaluation and consulting services. At the request of senior management, the division analyzes and critiques OCC operations and programs for efficiency and effectiveness and provides recommendations for improvements. The division provides evaluative and technical assistance for new initiatives or programs.

The staff consists of national bank examiners and management analysts. Ongoing functions include assessing major programs and management systems; designing and conducting organizational surveys; analyzing workflow; and performing project and program management. At times, the staff participates on various Washington task forces and committees.

Major in-house management and organizational consulting projects undertaken in 1987 included a review of Field

Manager Activities in the Central District, an organizational review of the Financial Management Division, and operations reviews of the Consumer and Trust Activities divisions. In addition, project management assistance was provided to the Supervisory Approach Task Force and the Communications Study. Other studies were performed in the Legal Advisory Services area, the Conference Office, and Supervisory Information and Supervisory Research divisions.

Equal Employment Programs

The Equal Employment Programs Division monitors, evaluates, and assesses EEO and affirmative action (AA) conditions. The office also processes complaints of discrimination and provides training, advice, and guidance to managers, supervisors, and employees on EEO and AA matters. The staff consists of three EEO specialists and one program analyst.

During the year, the staff conducted nine EEO training workshops for district offices. The people who received the training were examiners and EEO advisory committee members. Other activities included participating in personnel management evaluations and the career structure advisory group; incorporating a standardized EEO module into the district supervisory training school; revamping EEO training to reinforce and emphasize EEO as good personnel management; and providing technical assistance to district offices and Washington divisions. The staff also monitored and assessed EEO and AA results through quarterly district overview reports and semiannual AA accomplishment reports, provided other federal agencies assistance on sensitive EEO matters, updated the EEO handbook and sexual harrassment policy statement, revised procedures for the EEO award, and provided EEO briefings to various groups.

A major initiative taken by the office during the year was the introduction of the EEO Office Rotational Assignment Program. This program provided a 1-month assignment in the EEO office for field examiners and other district personnel. The program was very successful and will continue in 1988.

The multi-year affirmative action plan expired at the end of FY 1987. The annual affirmative action accomplishment report and update to the Equal Employment Opportunity Commission (EEOC) reported the OCC is fully represented for American Indians and Asians and made significant progress toward achieving its goals for all other protected groups (black females, Hispanics, and white females) except black males. New guidelines for affirmative employment planning for FY 88-92 were issued by the EEOC and provided to district and Washington management officials. An AA review was conducted that contained the data needed to prepare affirmative employment plans under the new guidelines.

Systems and Financial Management

The Deputy Comptroller for Systems and Financial Management is responsible for ensuring the coordinated development, implementation and maintenance of OCC's automated information systems and for ensuring the efficient use of the OCC's financial resources. In order to accommodate the operation of larger, more sophisticated data systems and a higher level of user support, the Information and Technology Division and the Management Systems and Technical Services Division were reorganized into the following units: User Support Division, Systems Support Division, Applications Development Division, and Manager, MIS Coordination (reporting to the deputy comptroller). The reorganization will be effective in 1988.

Information Systems and Technology

During 1987, the Information Systems and Technology Division (IS&T) continued its efforts to enhance and maintain technology within the OCC organization.

Effective in 1988, the operation of the Applications Systems Development group will be transferred to the Applications Development Division. An advanced technology function, which was created in 1987 to provide the organization with strategic planning to meet the ever changing systems environment, will also become part of the Applications Development Division. Applications Systems is responsible for assisting users by developing, modifying and maintaining mainframe production systems used throughout the organization.

The operations of both the Systems Support group and the Operations and User Services group will also be transferred to the Systems Support Division in 1988. The division is responsible for the agency's telecommunication network, both voice and data, database support, and ongoing data entry and computer operations support. Management of the OCC Data Center is also the responsibility of the division.

Significant IS&T Division activities during 1987 included:

- Upgrading the mainframe capacity and improving central mainframe access response time for users.
- Managing, enhancing, relocating, expanding and reconfiguring the agency's nationwide data telecommunications network. This included expanding it to 80 additional sites so that all duty stations could have direct access to the mainframe.
- Providing other federal bank regulatory agencies with the ability to access OCC systems.

- Designing, testing and implementing universal password and sign-on procedures for agency use.

- Developing, modifying, testing, implementing and maintaining over 50 systems including

  — Further major development of the Supervisory Monitoring System;

  — Implementation of a new accounts payable system for financial management;

  — Major new training and recruitment placement systems;

  — Improvements to overall systems capabilities, such as text processing improvements and an ad hoc query project.

- Continuing research and development efforts in database management, telecommunications, and software packages for the mainframe and for use on personal computers to improve systems analysis, development and documentation.

- Instituting an Application Development Life Cycle and project planning.

- Developing documentation standards.

Management Systems and Technical Services

In 1987, the Management Systems and Technical Services Division (MS&TS) was responsible for three major functional areas: an information center, data administration, and management information system (MIS) planning. The division coordinated the planning of the development of information systems to support OCC programs and long-term goals. The division reviewed and analyzed the information needs of the OCC and worked with users to develop logical data models for new application systems. Support was provided for all users of office automation equipment and mainframe systems. MS&T's responsibilities also included office automation, automated system risk management, and automated information security programs.

The Information Center is responsible for OCC's office automation and user support programs. Through the Information Center Hotline, users have a single point of contact to resolve automated equipment, telecommunications, software or application problems. Computer specialists on the Hotline provide direct technical assistance for most problems and referral and follow-up for any that cannot be immediately resolved.

Major steps were taken in 1987 by the Information Center to ensure that users continued to have the systems necessary to accomplish their jobs efficiently. The center field tested a portable microcomputer system for use by field examiners. The Information Center also coordinated the implementation of a sophisticated system of networked laser printers in OCC's duty stations. In total, the Information Center coordinated the acquisition of over 800 microcomputer systems during 1987.

The unit routinely evaluates the software for office automation systems and manages the maintenance support for user systems. In 1987, microcomputer spreadsheet, word processing, and telecommunications software were upgraded. A new maintenance contract was implemented that provides increased onsite support for users. The Information Center also worked with the districts to develop a comprehensive user manual for microcomputer users.

The Data Administration group will be transferred to the Applications Development Division in 1988. Data Administration is responsible for applying OCC's Strategic Systems Plan to all MIS application development requests and developing logical data models for these systems. By using a comprehensive business model of the OCC to help assign priority to application development and a data model based on users' business needs, Data Administration tries to maximize the utility of new systems. During 1987, Data Administration worked closely with the Application Systems Development staff to test and to finalize OCC's Application Development Life Cycle (ADLC) procedures. Development of the training database was successfully piloted under the new ADLC.

The MIS Planning group will become an MIS Coordination Unit reporting to the deputy comptroller in 1988. During 1987, the MIS Planning Group coordinated OCC's MIS planning activities for the MIS Committee, which is under the guidance of the Deputy Comptroller for Systems and Financial Management. Through the MIS Planning Group, MS&TS worked closely with IS&T in its review of MIS requests to make recommendations for Committee review. In its role as secretariat for the MIS committee, MS&TS provided administrative support. The MIS Planning group also coordinated development of systems and procedures that streamlined management of the security system for automated systems.

Financial Management

The Financial Management Division promotes the efficient use of the OCC's financial resources. The division has three branches: Financial Planning and Analysis, Accounting and Funds Management, and Financial Review and Systems Management.

Financial Planning and Analysis develops, recommends, implements and administers revenue and expenditure

policy; performs financial analysis; designs and operates financial models; and directs the OCC's budget operation, which includes coordination with the Treasury Budget Office, the Office of Management and Budget, and Congress. In 1987, the Financial Planning and Analysis Branch:

- Developed and implemented a comprehensive automated package for the plan and budget process.
- Completed a study which reviewed financial reporting in OCC.
- Developed new reporting mechanisms that enabled OCC to monitor budget performance on the microcomputer.
- Issued the 1988 Notice of Comptroller of the Currency Fees.
- Performed financial analysis of programs and projects in OCC to ensure maximum utilization of funds.
- Executed the 1987 operating budget and formulated the 1988 operating budget.

Accounting and Funds Management is responsible for collecting and disbursing all funds and managing OCC's financial reporting systems. This includes recording all of OCC's financial transactions, ensuring that the financial system effectively monitors resource utilization and forecasting activities, and providing financial reports for management. Additionally, the area manages the OCC's investment portfolio and relocating personnel. During 1987, the Accounting and Funds Management Branch:

- Established a lockbox collection agreement with a commercial bank to collect certain OCC revenues. This agreement will eliminate some mail lag time and automate input to the accounting system.
- Reorganized the Disbursement Unit into four areas of responsibility: accounts payable, relocation/time and travel, payroll and accounting review. This allows explicit delineation of duties, more effective internal control and a quality control review.
- Conducted initial and follow-up training to enable unit personnel to provide more efficient and effective service.
- Along with the Financial Review and Systems Management Branch, designed an on-line automated Time and Attendance Reporting System. This system, which will allow interface with the payroll system, has up-front edits and allows District offices to enter pay and leave related data.
- Conducted timekeeper training sessions for all Washington and district timekeepers.

Financial Review and Systems Management is responsible for quality control, internal control reviews and the Federal Managers' Financial Integrity Act (FMFIA) reporting. It is also responsible for reviewing the budget and payments such as travel and relocation for compliance, and for the development and implementation of financial systems. In 1987, the Financial Review and Systems Management Branch:

- Enhanced and implemented the Cullinet Accounts Payable System.
- Implemented a system to generate bills automatically for trust examinations.
- Conducted quality control reviews of OCC's district and field offices' financial operations.
- Conducted FMFIA Section 4 reviews of the payroll and investment subsystems of OCC's Financial Management/Accounting System.
- Redesigned OCC's relocation subsystem to incorporate the changes in the Federal Tax Code.

Law Department

Litigation

The Litigation Division represents the OCC in court. In 1987, the Litigation Division handled a variety of significant cases in which the OCC was a participant. Among those cases was litigation concerning OCC approvals of various national bank activities, OCC branching and merger approvals, declarations of insolvency, enforcement of banking laws and regulations, prohibiting judgment creditors of national banks from attaching assets of a national bank prior to final judgment, and testimony and document production requests.

In a very important decision involving OCC approval of branching by a national bank, the Supreme Court declined to review the decision by the Fifth Circuit Court of Appeals that upheld the OCC approval for Deposit Guaranty National Bank of Jackson, Mississippi, to operate a branch more than 100 miles from its main office. In *Department of Banking and Consumer Finance v. Clarke*, 809 F.2d 266, *cert. denied*, 107 S.Ct. 3240 (1987), the state challenged OCC's approval of a branch beyond the 100-mile radius that restricts state-chartered commercial banks in Mississippi. OCC approved the branch based on an interpretation of the term "State bank" in 12 U.S.C. § 36(h) that included state savings associations that engaged in the business of banking. Under the federal branching statute, a national bank is permitted to branch to the same extent as a "State bank." The district court had ruled that state nomenclature for financial entities controls the federal definition.

The Fifth Circuit Court reversed the district court's decision, holding that, while the Comptroller may seek the guidance of "helpful" state law, he is nonetheless "bound to follow" federal law in construing the definitional terms contained in 12 U.S.C. § 36, including "State bank" and "banking business." The court held that the Comptroller was statutorily mandated to determine whether the Mississippi savings associations, some of which publicly refer to themselves as savings banks, were actually "carrying on the banking business." It held that this task could only be accomplished by a targeted functional analysis. The court's upholding of the Comptroller's decision resulting from this analysis was found to be "amply supported by the record" and "patently correct."

As a result of the Fifth Circuit Court's decision, a number of similar branch applications were filed in Georgia, Tennessee, Texas, and Louisiana, and processed by this Office. Approvals of branch applications in Tennessee and Texas have spawned additional lawsuits. *Volunteer State Bank, et al. v. National Bank of Commerce and Clarke*, No. 3.87-0800 (M.D. Tenn.), where the branch approval is being challenged by state-chartered banks, and *Texas v. Clarke*, No. A-87-CA-860 (W.D. Texas), were filed in the fall.

With respect to permissible activities, the Comptroller's decision permitting Citibank to establish an operating subsidiary, Ambac, to offer municipal bond insurance was upheld. In *American Insurance Association v. Clarke*, No. 85-1489 (D.D.C. Memor. Opin. & Order, March 10, 1987), the court found the proposed activities permissible under 12 U.S.C. § 24 (Seventh). It determined that the provision of municipal bond insurance is the functional equivalent of a permissible standby letter of credit. As is the case with a standby letter of credit, the municipal bond insurance also is not an impermissible guarantee. Finally, the court concluded that by the terms of the Federal Reserve Board's regulations, the Comptroller need not defer to the Board for activities of a national bank subsidiary of a bank holding company that are permissible under the National Bank Act. This decision has been appealed. *American Insurance Association v. Clarke*, No. 87-5128 (D.C. Cir.).

Another major case in the area of permissible activities of national banks is *Securities Industry Association v. Clarke*, No. 87 Civ. 4504 (S.D.N.Y.). This case involves a challenge to OCC's opinion letter concluding that issuance and sale by national banks of mortgage-backed pass-through certificates is in substance a traditional banking activity, and is not prohibited by Glass-Steagall. In addition, the Investment Company Institute has challenged this Office's authorization of Chase Manhattan Bank's market index deposit instrument. *ICI v. Chase Manhattan Bank, N.A., et al.*, No. 87-1093 (D.D.C.)

Finally, in the permissible activities area, legal opinions by employees of the OCC that national banks may act as agents in the sale and underwriting of title insurance resulted in a law suit pending in the district court in Texas. *American Land Title Association v. Clarke*, No. A87-CA-408 (W.D. Tx.). Also pending in the insurance area is a case seeking to overturn OCC's approval, under 12 U.S.C. § 92 of U.S. National Bank of Oregon's proposal to sell insurance anywhere from a bank subsidiary in a town of less than 5,000. *Nat'l. Ass'n. of Life Underwriters, et al. v. Clarke, et al*, Nos. 86-3042, 86-3045 (D.D.C.)

The Litigation Division also participated in cases concerning merger approvals. *Washington, et al. v. OCC, et al.*, No. CV 487-281 (S.D Ga.). This action was brought to challenge the merger of First Union Bank of Savannah with and into First Union National Bank of Georiga. The Savannah Community Reinvestment Alliance challenged the merger and the Office's decision to deny the group a public hearing on the merger under the Administrative Procedures Act and the Community Reinvestment Act.

In ruling for the OCC, the court found that the Office has discretion to limit public hearings on proposed mergers, and that "the OCC's regulations defining the circumstances that will warrant the holding of a public hearing are valid." The court found the decision to deny the hearing was the product of careful consideration, that the reasons for the denial were adequately articulated and, therefore, would not disturb the decision. Limiting its review of the OCC's decision to approve the merger, the court ruled that the decision was not "arbitrary, capricious, an abuse of discretion or otherwise not in accordance with law." The case has been appealed to the Eleventh Circiut Court of Appeals and is pending as docket number 87-8912.

A similar challenge was brought by the same plaintiff in connection with the merger of First Bank of Savannah with and into First National Bank of Atlanta. That case was filed

on November 6, 1987. *Washington, et al. v. OCC, et al.* No. CV 487-288.

The OCC also participated in drafting an appeal brief for the United States as *amicus curiae* in *Wells Fargo Asia Ltd. v. Citibank, N.A.*, No. 87-7685 (2d Cir.). The brief, filed on behalf of the Departments of State and Treasury, the Federal Reserve Board, the FDIC and the OCC, argued that U.S. courts should not enforce a Philippine law (assuming *arguendo* that such was Philippine law) that would hold a U.S. bank responsible for the sovereign risks on deposits booked at its foreign branch. The district court had held that Citibank is obligated to repay Wells Fargo Asia Ltd., a depositor of Citibank Manila, with assets located elsewhere. *Wells Fargo Asia Ltd. v. Citibank, N.A.*, 660 F. Supp. 946 (S.D.N.Y. 1987).

There were also several cases in the area of enforcement of banking laws and regulations. In one such case, the OCC's authority to commence an administrative hearing for the purpose of assessing civil money penalities was challenged first in the district court and then in the court of appeals. *Abercrombie, et al. v. OCC,* No. 86-2493 (7th Cir., Slip Op., November 12, 1987). The case had been brought by directors of a national bank who, after requesting an administrative hearing on the civil money penalities, sought injunctive relief to block the hearing, arguing that OCC's assessment was improper because it was based on past violations. The Office argued that the court lacked jurisdiction, which had been withdrawn by 12 U.S.C. § 1818. The Seventh Circuit affirmed the district court judgment that jurisdiction was lacking and ruled that the proper place for the directors' disputes to be heard is the administrative forum.

Also in the area of enforcement, OCC sought a preliminary injunction and declaratory relief arguing that 12 U.S.C. § 91 bars execution and garnishment against a national bank before entry of a final judgment from which no appeal is available. *United States v. LeMaire, et al.*, No. 86-1761 (5th Cir.). The Fifth Circuit affirmed the district court decision, agreeing with OCC and enjoining the judgment creditors from taking any action concerning attachment or execution until all appeals had been exhausted in the underlying litigation. A petition for *certiorari* to the Supreme Court was filed by defendants.

In another case challenging OCC's authority to declare a bank insolvent, *First National Bank of Wilmont, Minn. v. OCC,* No. 4-87-476 (Bench Dec., May 29, 1987, D. Minn.), the court denied the bank's motion to enjoin the closing. The judge denied the motion on a number of grounds, including failure to prove that the Comptroller's decision to close the bank was made in bad faith or arbitrarily. The bank had argued that its recently hired certified public accountants needed a week to examine the bank to determine if certain bond transactions, classified by the OCC as trades rather than investments, had to be marked to the less of cost or market. The judge, who looked to the merits of the underlying arguments, agreed with the examiners that the bond transactions were trades. Depreciation in the trading account was the major factor in the book insolvency, which prompted the Comptroller's decision to close the bank.

Finally, in the area of enforcement, a district court modified a suspension order issued by OCC pursuant to 12 U.S.C. § 1818(e) against a former president, chief executive officer and chairman of the board of a national bank. The case is currently pending before the Eighth Circuit Court of Appeals, which consolidated the appeals and denied the executive officer's motion to dismiss for mootness.

The Litigation Division, as in past years, also devoted a large percentage of time to testimony and document production requests under 12 C.F.R. § 4.19.

Enforcement and Compliance

The Enforcement and Compliance Division, in conjunction with the Districts, is principally responsible for recommending administrative actions in appropriate cases and for representing the Office in presenting and litigating these actions in administrative hearings and, when necessary, in United States courts of appeal and district courts. In addition, the division is responsible for generally advising senior officials of the agency regarding legal issues in connection with the bank supervision process.

During 1987, the OCC issued 2 temporary orders to cease and desist, 29 cease and desist orders, 87 formal agreements, 23 memoranda of understanding, and 3 suspensions. In addition, the OCC initiated 156 civil money penalties, while closing 117 penalty proceedings. Finally, the OCC initiated 31 removal proceedings and closed 22 such actions.

The division conducted six formal administrative hearings in 1987. Three of the matters involved civil money penalties, while two others involved removal actions as well as civil money penalties. The one remaining hearing involved a suspension, removal and civil money penalty. The suspension issue in this proceeding was heard before a federal district court. Of these six litigated matters, four are awaiting decisions of the presiding administrative law judge; the remaining two are before the Comptroller for final decisions on the civil money penalty issues and the Board of Governors of the Federal Reserve System for final decisions on the removal issues.

In the area of agency policy, the division was instrumental in formulating and implementing two new policies dealing with overall OCC enforcement activity and the agency's

civil money penalty process. It is believed that the new OCC Enforcement Policy will enable the agency, as well as the division, to better concentrate its resources where needed in an approach more tailored to the specific institution. The new civil money penalty policy is also expected to better utilize OCC resources by restructuring workflow and promoting more consistent and timely response to violations.

During the year, the division worked closely with representatives of the Department of Justice and the Bank Regulatory Agency Task Force. This effort included significant sharing of information among the supervisory agencies and, consistent with the provisions of the Right to Financial Privacy Act, communication and criminal referrals made to the Department of Justice. Further, the division actively participated in the promulgation of guidelines for compliance with the Bank Bribery Act developed by the Task Force.

The offshore shell bank unit of the division worked throughout the year with local, national and international law enforcement authorities. This included providing information and expert testimony. The division continued to alert the banking industry to the existence of fraudulent and questionable practices in this area.

Finally, in the area of the Bank Secrecy Act, the OCC and the division continued to be active participants in the Interagency Bank Secrecy Act Task Force organized by the Department of Treasury.

Securities & Corporate Practices

The Securities & Corporate Practices Division is responsible for providing legal advice to the Office and the public on provisions of the federal securities and national banking laws, including the Glass-Steagall Act, relating to bank securities activities, as well as provisions of the national banking laws affecting the capital structure, corporate practices and collective investment activities of national banks. The division also is responsible for administering and enforcing the federal securities laws affecting national banks, including the Securities Exchange Act of 1934 (Exchange Act) and the Comptroller's Securities Exchange Act Disclosure Rules, 12 C.F.R. 11. The division also administers and enforces the Comptroller's Securities Offering Disclosure Rules, 12 C.F.R. 16, which apply to national banks making public and private offers and selling their securities. Further, the division administers the Office's enforcement program as it relates to bank securities activities, including violations of the federal securities laws involving bank municipal securities dealers, bank transfer agents, and other bank securities activities involving violations of the federal securities and national banking laws. The division also provides interpretive advice on the Change in Bank Control Act of 1978 (CBCA). Finally, the division is responsible for acting as liaison with federal and state securities regulatory agencies, including the Securities and Exchange Commission (SEC).

During 1987, the division was involved in activities and projects involving all of its major program responsibilities. The division continued to provide advice and opinions on the securities-related activities of national banks under the Glass-Steagall Act and other national banking laws. It also continued to review numerous offering circulars, notices of nonpublic sale, registration statements, annual and special meeting proxy materials, tender offer and beneficial ownership materials, periodic reports and other reports required to be filed with the Office pursuant to the Comptroller's various securities disclosure rules and merger application procedures. The division participated in the Office's decision to suspend the effectiveness of a national bank's offering circular after determining that the bank was technically insolvent. The division also issued several interpretive letters concerning the construction of it securities disclosure rules.

The division participated in the review of securities disclosure documents relating to the acquisitions of Texas Commerce Bancshares, Inc., Allied Bancshares, Inc., and First City Bancorporation of Texas, Inc., respectively. In connection with the review of each of these transactions, the division participated in the consideration and approval of an application for the formation of a "liquidating bank," the sole function of which would be to litigate the problem assets of the holding company's subsidiary banks. The division also considered and provided advice regarding complex issues of bank corporate law raised by novel provisions in the articles of association of the liquidating banks.

In the securities enforcement area, the division pursued several enforcement proceedings.

In *The Matter of Nicholas Roppollo and James Turgeon (First National Bank of Shreveport, Shreveport, Louisiana)*, (March 6, 1987), the Office entered consent orders against two former employees of the bank. The former employees allegedly had used customer securities, purchased and held through the bank's discount brokerage operation, as margin to cover their options trading. Pursuant to the Orders, the employees agreed to cease to act in any position in the bank or any financial institution or affiliate of any financial institution involving the purchase and sale of securities, provision of fiduciary services to the public, or handling of customer trust funds or securities for 11 months.

In *Comptroller of the Currency v. Torrance National Bank, Torrance, California*, Civil Action No. 87-0884 (D.D.C. March 31, 1987), the Comptroller instituted a civil injunctive action against the bank and its board of directors to remedy the bank's alleged consistent violations of the periodic reporting requirements of the Exchange Act and the individual

directors' alleged violations of the Exchange Act requirement that directors file statements of ownership of bank stock. In addition, the complaint alleged that three directors violated the Exchange Act requirement of filing acquisition statements upon their acquisition of more than 5 percent of bank stock. All defendants consented to the entry of injunctions barring further violations of these securities disclosure laws and regulations and requiring the defendants to file Exchange Act reports in accordance with applicable law and regulations.

In *Bank of America National Trust & Savings Association, San Francisco, California, et al.*, OCC Docket No. AA-SCP-87-107 (July 23, 1987), the Comptroller alleged that the bank, through its registered municipal securities dealer department and three current and former employees of that department, violated provisions of the Exchange Act and the MSRB rules in connection with the bank's performance of securities transactions without disclosing to customers that it was unable to maintain and keep current accurate and adequate books and records or an efficient back office operation. The Comptroller alleged that the bank issued safekeeping receipts in certain securities transactions in which the bank sold securities to the accounts of customers when securities had not yet been purchased. The Comptroller also alleged that the bank did not advise customers that it had created due bills instead of purchasing securities nor that customer funds had been used in the interim by the bank. In addition, the Comptroller alleged that the individual respondents failed to exercise adequate supervision of other employees, leading to the bank's dealer violations. The bank consented to the entry of a censure and agreed to comply with various remedial undertakings. The individual respondents consented to suspensions from association with any municipal securities dealer in a supervisory capacity for periods of 2, 5, and 5 days, respectively.

During 1987, the division conducted formal investigations and informal inquiries into possible violations of the federal banking and securities laws by national banks and persons participating in the conduct of affairs of national banks, including formal investigations into allegations of Exchange Act and MSRB rule violations involving national bank municipal securities dealer departments. The division also prepared two referrals to the SEC involving possible violations of the federal securities laws and regulations by a bank holding company and a securities broker. Further, the division participated in the consideration and approval of access requests by the SEC and state securities regulators.

In 1987, the division participated in significant matters involving interpretations of the Glass-Steagall Act and other provisions of the national banking laws applicable to bank securities activities. The division prepared approval letters for the Office's consideration of one application to revise, and two applications to establish, collective investment of individual retirement accounts (IRA) and commingled pension and profit sharing plans. In two of these applications, the Office determined to permit accounts in which affiliated banks serve as trustees to participate in the lead bank's collective investment trust. The division issued "no objection" responses to three proposals by securities brokerage firms to provide securities brokerage and investment advisory services on the premises of national banks. The division also was involved in the preparation of an interpretive letter (currently the subject of litigation brought by the Securities Industry Association) concerning the legality of a national bank's issuance and public sale of certificates evidencing interests in pools of the bank's conventional mortgage loans. In addition, the division participated in the preparation of a letter to the Board of Governors of the Federal Reserve System which provided the Office's opinion on several issues which arose under the Glass-Steagall Act in connection with applications by bank holding companies to establish securities underwriting subsidiaries. Moreover, the division participated in the Office's formulation of policies and procedures concerning the securities moratorium provisions of the Competitive Equality Banking Act of 1987, and provided advice and support to the Office in the development of its positions on banking legislative reform.

During 1987, the division continued its efforts in developing proposed revisions to regulations relating to national bank securities activities, including the Office's offering disclosure, trust, merger, and enforcement regulations. The division also provided legal analyses of new chartering procedures and related legal issues concerning the initial application to charter a "bridge bank" in accordance with the Competitive Equality Banking Act of 1987. In addition, the division consulted and advised the Department of Treasury concerning the adoption of regulations governing the financial responsibility and other requirements of the Government Securities Act of 1986. Finally, the division continued to provide advice and guidance in the interpretation and enforcement of the CBCA.

Legal Advisory Services

During 1987, the Legal Advisory Services Division provided legal advice and opinions to the examining, policy and administrative divisions of the OCC, its district and field offices, national banks, attorneys, and the public. Specific projects undertaken during the past year include the following.

<u>Corporate Applications</u>

- LASD advised Bank Organization and Structure and the Policy Group on a variety of merger issues and proposed merger transactions.

- LASD issued opinions regarding various operating subsidiary applications.

- LASD provided legal support to the OCC's program for national bank investment in community development corporations.

Expansion of Bank Activities

- LASD issued an opinion that a national bank may sell or underwrite title insurance as an incident to the making of mortgage loans to protect those loans and for the convenience of bank customers.

- LASD issued an opinion that a national bank may issue and sell collateralized mortgage obligations (CMOs).

- LASD issued a no objection letter on the private placement of real estate mortgage investment conduits (REMIÇs).

- LASD issued a no objection letter on a bank's proposal to engage in commodity price index swaps as principal with its customers.

- LASD issued an opinion that a bank may invest in guaranteed investment contracts (GICs) issued by insurance companies.

- LASD issued opinions that a bankers association may establish a mutual insurance company to provide blanket bond and director and officer liability insurance to its members.

- LASD issued an opinion that a national bank may lease space to a real estate broker.

- LASD issued an opinion that a national bank may own an operating subsidiary which owns less than 50 percent of a partnership.

- LASD issued an opinion that a national bank may establish an operating subsidiary to act as market maker for options on foreign currency and Eurodollar time deposits which are traded on a stock exchange.

- LASD issued an opinion that a national bank could offer participation interests in another bank's insured CDs to its customers.

- LASD issued opinions that a national bank could sell shares of mutual funds and interests in unit investment trusts on an agency basis and provide investment advisory services to its customers

- LASD issued opinions that a national bank could broker futures and options on futures on foreign currencies and gold and silver.

- LASD issued an opinion that a national bank may own another bank.

- LASD issued an opinion that a national bank may pool its own loans to limited partnerships through a trust for which it is trustee and sell interests in the pool without contravening the moratorium provisions of the Competitive Equality Banking Act.

- LASD issued an opinion that a national bank can exchange "other real estate owned" for preferred stock and/or debentures in a transaction involving debt previously contracted.

- LASD issued an opinion that a national bank could exchange its Mexican public debt for an interest in privately owned Mexican real estate in the exercise of the bank's authority to take property in satisfaction of debts previously contracted.

New Regulations

- LASD provided legal support in the drafting of risk-based capital guidelines.

- LASD drafted a regulation revising 12 C.F.R. Parts 29, 30 and 34.

- LADS drafted a temporary regulation implementing Title 8 of the Competitive Equality Banking Act concerning the amortization of agricultural loan losses.

Supervision

- LASD provided legal support to the OCC's program involving the reorganization of several large regional banks.

- LASD provided legal assistance in connection with the record number of bank closings in 1987.

Administrative

- LASD provided legal services, to the administrative side of the Office in the areas of personnel, procurement, EEO, and financial matters.

- LASD provided legal support for the OCC's successful effort to have statutory provisions enacted maintaining the Office's budgetary independence.

- LASD attorneys participated in the "files review project," an effort to reorganize the Law Department's files and prepare them for inclusion in the LEXIS computer legal research system.

- LASD prepared rulings on appeals submitted under the Freedom of Information Act.

Task Forces

- LASD representatives participated on the CEBA Moratorium Task Force.

- LASD representatives participated on the Financial Guarantee Task Force.

- The director of LASD served —

  — on the management information committee.

  — on the OCC's task force on technology.

  — as chairperson of the Chief Counsel's task force on training.

- An LASD attorney served on the Equal Employment Opportunity Advisory Committee.

- LASD participated on a task force to advise the Secretary of the Treasury on options for dealing with the foreign debt crisis.

- LASD participated on a task force to advise Treasury on financial issues in the trade negotiations with Canada.

General Banking Operations

During the year, LASD provided interpretive letters and memoranda on a variety of internally and externally generated questions concerning such matters as bank powers, lending limits, the international debt situation, real estate holdings and property acquired in satisfaction of debts previously contracted, affiliate transactions, adjustable-rate mortgages, home equity loans, the Glass-Steagall Act, state regulation of national banks, and naitonal treatment of U.S. banks abroad.

Legislative and Regulatory Analysis

The Legislative and Regulatory Analysis Division has a legislative section and a regulatory analysis section. The legislative section offers legal advice to OCC officials on pending legislation that may affect the OCC, the banking system or other financial institutions. In addition, the legislative section acts as counsel to the Comptroller in agency administrative proceedings.

Legislative attorneys prepare briefing materials on legislative proposals, participate in the formulation of the agency's position on legislation, and maintain legislative resource materials. They also participate in drafting Congressional testimony for the Comptroller or his designated representative, respond to Congressional inquiries, and draft legislation. Legislative attorneys maintain contact with Congressional staffs, representatives of other agencies, bank and trade association representatives, and others regarding proposed legislation. On occasion, they address various groups, including bankers' associations, bank counsel, and OCC staff members on legal and legislative matters.

During 1987, the legislative section prepared or provided assistance in the preparation of Congressional testimony on a variety of topics, including the condition of the national banking system, Glass-Steagall Act reform, restructuring of the financial services industry, OCC's supervisory and enforcement efforts to counter insider abuse, OCC's monitoring of compliance with the Bank Secrecy Act and other efforts in support of the law enforcement community, and regulatory views on international debt.

The legislative attorneys also reviewed legislation and provided counsel on the following legislative issues: FSLIC recapitalization, emergency acquisitions, and funds availability (Competitive Equality Banking Act of 1987 (CEBA) provisions); bank and thrift powers, including the moratorium imposed by CEBA; restructuring the financial services industry; credit card disclosure; and agricultural credit, including amortization of agricultural loan losses and the secondary market. The legislative section drafted bills to amend the OCC conservatorship and enforcement authority which have been introduced in Congress. The attorneys also reviewed proposals to streamline various corporate provisions of the National Bank Act.

As counsel to the Comptroller in agency administrative actions, the legislative attorneys advised the Comptroller regarding cease and desist and civil money penalty actions, and requests for public hearings in formal administrative proceedings. In addition, advice was given regarding the confidentiality of OCC examination reports in an administrative hearing, post-conviction removal, and various motions.

The regulatory analysis section of LRAD identifies laws, regulations, policies, and supervisory practices which are burdensome, obsolete, or inconsistent with other requirements. It ensures compliance with the regulatory review and improvement requirements imposed on agencies by the Paperwork Reduction Act, Executive Order 12291, Executive Order 12498, the Regulatory Flexibility Act and the Financial Regulation Simplification Act. Responsibilities include developing measures of regulatory costs and benefits, offering alternatives for securing regulatory objectives, and representing the OCC before the Treasury

Department and the Office of Management and Budget (OMB) in order to secure approval for regulatory changes and paperwork matters.

During 1987, LRAD offered assistance or advice in the development of 18 notices which appeared in the *Federal Register*. The section also guided the preparation of approximately 25 Paperwork Reduction Act review requests (for forms, reports, surveys, rulemakings, etc.) and 7 Executive Order 12291 review requests (for rulemakings only).

At the end of 1987, there were approximately 25 rulemakings under development, including a proposal to revise current capital requirements for national banks to factor risk exposure into minimum capital calculations (12 C.F.R. 3), a proposal to require national banks to make an annual disclosure statement of financial and other information available to security holders, depositors and other interested persons (12 C.F.R. 18), imposition of uniform disclosure requirements for all creditors extending adjustable-rate mortgage loans in consumer credit transactions (12 C.F.R. 29, 30 and 34), and a revision of OCC's Rules of Practice and Procedure governing administrative hearings (12 C.F.R. 19).

In addition to LRAD's ongoing program of reviewing each existing and proposed regulation, reporting requirements, and banking issuances from a cost/benefit and practical utility standpoint, this section prepares the annual Information Collection Budget and the Seminannual Agenda of Regulatory Actions.

LRAD is responsible for the administration of OCC's Conflict of Interest Policies and the Treasury Department's Minimum Standards of Conduct. In this connection, LRAD reviews all Confidential Statements of Employment and Financial Interest filed annually by Washington-based personnel. LRAD also promotes compliance with ethics standards and applicable laws by educating OCC employees in this area. In this connection, in 1987 LRAD participated with the FDIC and FHLBB in the production of a film on ehtics to be shown to new OCC employees.

LRAD was also responsible for preparing *The Director's Book: The Role of a National Bank Director,* which was drafted in coordination with various OCC staff members.

Legislative and Public Affairs

Banking Relations

The Banking Relations Division acts as liaison with bankers, state bankers associations, banking trade groups, and state bank supervisors.

The division provides advice and counsel to the Comptroller and senior policymakers and is responsible for identifying proposed regulatory and industry actions that relate to Office activities. The division formulates specific approaches for ensuring that OCC's position is presented and appropriate information is disseminated.

The division recommends new policies, concepts and procedures to guide OCC in its relationship with the banking industry. It prepares and directs the preparation of a broad variety of briefing materials for use in meetings with OCC officials and banking industry groups. It also assists with the preparation of testimony or presentations for the Comptroller and senior officials.

The division is responsible for developing and maintaining state-by-state indepth analysis of all banking legislative initiatives and major issues, including existing, proposed and potential legislation.

Communications

The Communications Division provides information and publications services. Information services include press releases, responses to press inquiries, general inquiries relating to the agency's mission and requests under the Freedom of Information and Privacy acts.

The Director of Communications serves a liaison between the Comptroller and the press. News releases are issued on significant OCC actions and on testimony before Congress by the Comptroller and OCC staff.

In addition to producing OCC publications, the division also maintains subscription lists for the *Comptroller's Manual for National banks,* various examination handbooks and major publications. The division issues and maintains banking and examining issuances, interpretive letters and administrative directives. In addition, the division produces the *Quarterly Journal*, the newsletter *SuperVisions* and compiles the *Daily News Digest*.

Under the authority delegated by the Comptroller, the division is responsible for making initial determinations on requests for records of the OCC under the Freedom of

Information Act and the Privacy Act of 1974. In 1987, 1,444 such requests were processed.

Customer and Industry Affairs

The Customer and Industry Affairs Division is the liaison between the OCC and bank customer groups, as well as the insurance, real estate, and other nonbank financial industries. The division provides analysis, advice and counsel to the Comptroller and senior policymakers and is responsible for identifying proposed regulatory and other actions that relate to office activities. The division recommends new policies, concepts and procedures to guide the OCC in its relationships with bank customer groups and the nonbank financial industries. It maintains a monitoring system to help division staff identify and report on the impact of external environmental factors/risks. The division also manages the OCC's Community Development Corporation (CDC) program and coordinates the OCC's consumer affairs activities (with the exception of consumer complaints which are handled by the Consumer Activities Division).

During 1987, the division continued to improve the lines of communication and dialogue between the OCC and community, consumer, small business, insurance and real estate groups.

The division maintained regular contact in 1987 with 59 bank customer groups representing consumer, community, small business and government interests and 6 nonbank industry groups. Division staff participated in 20 conferences of these groups. Regular reports were made to the Comptroller and senior management on issues and trends which had implications for national banks and their customers. The Comptroller was the keynote speaker at three major community, consumer and economic development conferences and the Customer and Industry Affairs Division Director, manager and staff were keynote speakers or panelists at 11 bank customer group conferences/forums throughout the year. These educational forums provided an opportunity for the OCC to give regular feedback on its regulatory initiatives and to respond to issues of interest to the members of these organizations. The division also provided technical assistance to OCC district and field offices in their establishment of bank customer group outreach programs. Additionally, the division planned a briefing on the OCC's Compliance Program for national community, consumer and other groups.

During the year the division significantly enhanced the OCC's Community Development Corporation (CDC) Program. More than 95 CDC inquiries were handled and technical assistance was provided to 21 national banks considering establishing CDCs. The division made recommendations which led to the approval of 8 new CDCs for national banks, some of them multibank CDCs, and to approvals for an additional 21 national banks to invest in established CDCs with many banks investing in more than one CDC. The division also handled 6 CDC restructuring proposals for established CDCs.

Education for bankers about the OCC's CDC program was enhanced in 1987. First, the OCC co-sponsored with the Board of Governors of the Federal Reserve System a "CDC Conference for Financial Institutions," with an estimated 250 bank and bank holding company representatives and others in attendance. In addition to keynote addresses by OCC's Senior Deputy Comptroller for Legislative and Public Affairs and a member of the Board of Governors of the Federal Reserve System, program presenters were primarily representatives of bank and bank holding company CDCs and staff panelists from the OCC and FRB. A publication summarizing the conference is being printed and will be distributed to national banks early in 1988. Second, the OCC provided an exhibit of its CDC program at the American Bankers Association Housing Finance Conference which was attended by almost 400 bankers. Finally, the division published and distributed to over 3,000 bankers and others an OCC "Community Development Corporation Program for National Banks" information package which includes a brochure on the program, Banking Circular 185: CDCs, a national bank CDC directory, a national bank CDC Background Information Paper and a national banks CDCs Questions and Answers Paper.

The division wrote a publication summarizing the 1986 roundtable, "Opportunities and Issues for Banks in Affordable Housing" and distributed more than 2,000 copies.

The division also planned a briefing for consumer and community groups on the OCC's new compliance program. The briefing provided an opportunity for the OCC to discuss the compliance program's development, objectives, and examination approach. The briefing was held in late 1987 and was attended by approximately 20 representatives of national consumer, community, housing and civil rights organizations.

Finally, the division continued to provide staff support to the Comptroller in his capacity as a statutory member of the board of directors and vice chairman of the Neighborhood Reinvestment Corporation (NRC), continued as the agency's liaison with the Department of the Treasury Consumer Affairs Council, and continued as the OCC's representative to the Securities and Exchange Commission's Executive Committee on Small Business Capital Formation.

Congressional Liaison

The Congressional Liaison Division is responsible for this Office's relations with Members of Congress. Congres-

sional committees, subcommittees, and staffers.

The division provides analysis, advice, and counsel to the Comptroller and senior OCC policy makers on Congressional activities which affect or could affect the OCC, the national banking system, or the financial services marketplace. It also offers guidance on potential Congressional reaction to OCC actions.

As part of its responsibilities, the division maintains regular contact with Members, committees, subcommittees, and staffers to further communication and understanding and to ensure that OCC's interests are represented.

The division is the focal point for all Congressional inquires, including requests for testimony, staff studies, or other support. It assists in the preparation of testimony, comments, briefings, and staff studies relating to Congressional actions, as well as responses to constituent inquiries.

Finally, the division provides other necessary liaison and information services relating to Congressional and legislative matters.

Speeches and Congressional Testimony

Remarks by Robert L. Clarke, Comptroller of the Currency, before the American Bankers Association Annual Convention, Dallas, Texas, October 20, 1987

"Cause Something to Happen"

Not too long ago I came back to Texas to attend my college reunion. A couple of my classmates and I were reminiscing and we recalled the time when one of our friends was called down for procrastination. The professor was late for class that day. By the time he arrived all the students were engaged in a heated conversation — and no one noticed him. We just went on talking.

As the minutes ticked by the professor, understandably, became more and more ruffled. Finally, he could stand it no longer and decided to interrupt.

Addressing our friend, the professor shouted: "Bill, your paper is due tomorrow, you know." "Yes, I know," Bill answered. "Well," said the professor, "how are you coming on it?" "I'm doing okay," said Bill. "Have you started it?" asked the professor. "No," said Bill. "That's a 30-page paper and you are going to do it in one night?" asked the professor incredulously. "How do you expect to pass this course?" And Bill retorted: "Oh, come on, professor, any fool can plan ahead and work hard — but it takes a real genius to function from crisis to crisis."

As a close student of banking over the years since I left school, I have seen bankers function from crisis to crisis with an ability that seems to border on genius.

Penn Central. W.T. Grant. The bursting of the REIT bubble. New York City's financial fiasco. The Hunt brothers' hunt for their own silver lining. Chrysler. Penn Square. Continental Illinois. L.D.C. debt. Agricultural America coming a cropper. Energy prices plunging. The roof falling in on regional real estate markets.

If it's true that you learn from adversity, bankers must be the smartest group of people in the world.

I could name other crises, but a dozen in less than two decades makes the point. By the time one crisis was resolved, another appeared on the horizon. But banking — often with assistance from Washington — continued to function through all of them.

While several of these crises captured headlines and public attention in the 1980s, a less obvious crisis engulfed the banking system as a whole.

Not too many years ago bankers and this association could argue that banking "lay at the heart of the financial system." Not too many years ago, the president of the American Bankers Association could, and did, travel around the country promoting public understanding of banking by describing it as the "transmission belt" of the economy, the means by which capital flowed from where it was generated to where it was needed. Not too many years ago, bankers never doubted that their institutions were an essential feature of our country's economic landscape.

After all, had not the government erected a massive regulatory structure around banks to protect them because they were essential?

Most of the time, I wouldn't cite the source of a common turn of phrase, but you cannot be too careful about disclosing who you're quoting these days. So — to paraphrase Shakespeare — I came here today, not to praise the assumption that banks are essential, but to bury it.

It is clear that while banking functions continue to be essential to our economy, banks themselves are not. We may need banks for the conduct of monetary policy, as the Federal Reserve argues. We may need banks to operate an efficient and safe payments system, as the central bank and some others assert. We may need banks to provide federally insured deposits as an anchor to stabilize the financial system, as is now widely accepted. But aside from these public policy functions, do banks, as institutions, still perform a unique market function? No. Can bankers think of their institutions as unique anymore? No.

Can bankers expect the government to step in and protect them from crisis? Well, if the crisis is sudden, clear, and potentially catastrophic — on the level of another Continental Illinois, let's say — the answer is probably "yes." But the crisis that has engulfed banking in the last half decade or so isn't sudden, isn't clear, and doesn't hold forth the prospect of a financial Armageddon. It has been a long, slow and, most of the time, even silent run, not on bank deposits, but on banking's business. And the result is that today banks are no longer functionally essential.

Banks are important to some markets — international finance, energy and agricultural producers, middle market and small businesses, just to name a few. Banks perform as a liquidity backstop for the commercial paper and other such markets. But while banks continue to play a role in the economy as major providers on intermediation services, this role, though critically important, is not unique

To me, these factors argue in favor of doing all that we can to assure a strong and vigorous banking system, not because banks are unique, but because banks are important. But I doubt that they carry the same weight in the public mind as they do in my own. Or as I expect they do in yours.

Bankers, therefore, would do themselves a disservice to continue to believe that banks, as financial intermediaries, are essential. This belief breeds complacency, a feeling of false security. And bankers should feel far less secure with their status now than at any time in living memory.

Why? The degree of competition in financial intermediation alone is all the evidence we need of the availability of other firms to transfer funds from savers to users. In the absence of banks, other intermediaries would perform this critical function, and many are already. This change from the way things used to be carries several implications.

When banks played a unique role as financial intermediaries in the economy, bankers could rest assured that the government would protect the industry. Bankers may not have liked some of the forms that protection took in the past. But if banking came under attack, bankers could feel certain the U.S. Cavalry would come to the rescue.

At one time, the railroad industry felt itself in the same position. At that time it, too, offered unique services. But alternatives to railroad transportation arose. And government then had no need to rush to rescue a railroad system in distress. Someone else could do the railroad's job. And someone else did.

Until recently, the track record of the railroads told the story of an industry going nowhere but down. From 1920 to 1980 — 60 years — the U.S. railroad industry declined. As pointed out in a recent issue of the journal *Regulation*, by one measurement rail traffic's share of shipping fell from 75 percent in the 1920s to 36 percent in the late 1970s.

But as the economists writing in *Regulation* pointed out, things changed in 1980: Congress eliminated many of the destructive regulations that controlled the railroad industry during this century and reformed the regulations that remained.

The economists concluded that, as a result of Congress' action, "Productivity has leaped upward, rail rates have fallen somewhat in real terms, and the 50-year decline in the railroads' share of traffic has finally come to an end. . . . Returns to capital have risen and investment has responded, arresting the deterioration in railroad capital and service quality."

Now I'm not suggesting today that railroads provide an exact analogy to banks. The industries are differently structured, perform different functions and operate under different forms of regulation designed to achieve different ends. What I am suggesting, however, is that the experience of the railroads and the experience of the banks are similar: uniqueness, regulation, availability of alternative services, followed by decline, are the elements common to both. What I am suggesting is that promoting and stimulating competition through deregulation worked for them — and it will work for you.

What alternative do you have? Decline, which is probable if current trends continue. Or a rollback in the way the world works? Here I must say that no one has perceived a groundswell of public support aimed at restructuring the competitive barriers that once gave banks an exclusive franchise for their services.

On the contrary, if I were a banker I would be concerned about public support for proposals that would so insulate banks from the rest of the financial world as to turn them into little more than public utilities, as has been suggested by some. And as a banker I would hope I wouldn't find much public support for that idea. But does it sound so farfetched? The moratorium on expanding bank competitive authorities now in effect is one step in that direction.

Even for greater competitive flexibility, however, you cannot wait for the U.S. Cavalry to ride to your rescue on its own. The experience of the railroads shows that that wait could last a lifetime and the competition has gained on you far faster than it gained on them.

In the recent annual nationwide opinion poll conducted by the *American Banker*, Sears, which has aggressively sought to provide a complete range of financial services, was selected by more than 30 percent of the respondents as the firm that best met their financial services needs. The selection was made from a list of nine large, nationwide suppliers of financial services that included Citicorp and Bank of America. The survey also asked consumers which firms they viewed as in the forefront of change and innovation. Again, Sears topped the poll. Four out of the top five were conglomerates that offer services that range from credit cards to full-service securities brokerage.

But you've heard your own association leaders cry "Sears" again and again and again going back 5 years or more. And I remember my banker friends 5 years ago shrugging off the incredible suggestion of a national retailer offering full-service financial services with the comment "It will never happen." But it did. One of Sears' strengths was, and is, that is seems to have stores everywhere.

Another similar transformation almost happened this year with a retailer that could conceivably have been everywhere. And if Sears doesn't hit you where you live, this one quite likely would have — in your living room, in your den, in bed — wherever you recline in front of an electronic box that links you to the world outside — and links your customers to that world, too.

Could you compete with Home Shopping Network, Inc., if it offered financial services? If you don't know enough about the company to answer, let me tell you about it. Standard & Poor's describes Home Shopping Network as: "A specialty retailer that markets a variety of consumer products by means of live, customer-interactive, televised sales programs broadcast over its own networks.

"The copyrighted sales programs, which are in a distinctive format, use the spontaneity of live television, viewer participation, club membership and quality products at bargain prices to attract viewers and promote sales.

"Programs are broadcast 24 hours a day, 7 days a week, via satellite to cable systems, satellite dish receivers, and affiliate television broadcasting stations."

The "Company's programs provide for their viewers the convenience of shopping at home combined with bargain prices. Viewers purchase merchandise by calling a toll-free number and placing an order with one of the company's operators.

"An integrated, internally-developed data processing system maintains customer records, controls inventory, facilitates credit checks and payments, and processes customer orders," Standard & Poor's reports.

The *American Banker* reports that Home Shopping Network reaches more than 40 million homes and has about a million regular customers who are members of its shopping club. Why would *American Banker* be interested? Last winter Home Shopping Network announced an agreement to acquire Baltimore Federal Financial FSA, the second largest thrift institution in Maryland.

The tele-retailer also said that it would use the thrift to develop and market consumer financial products — like credit cards, like consumer loans — to its customers and viewers across the nation. Bankers have often dreamed of a national retail banking-at-home system. Retailers are able to buy a thrift to do this, but banks can't buy a cable television network to do it. As a result, a national retail financial services at home system almost became a reality, not through the initiative of a bank, but through that of a television retailer. Almost.

Several weeks ago the deal was scrapped. However, according to *Business Week*, Home Shopping Network still plans to offer financial services. It is negotiating to buy a regional brokerage firm and intends to offer a credit card for H.S.N. purchases, too. And I wouldn't be surprised if it began searching for a bank to buy.

I've gone into such detail today describing Home Shopping Network's plans because for many of you I'm sure they sound just as incredible as the plans Sears announced several years ago. But in our time incredible things come to pass with astonishing regularity.

I started out this morning describing why the banks' functions as financial intermediaries are no longer essential to the workings of the market economy, a prospect that seemed incredible just a few years ago.

Recently I've noticed that economists, bankers, analysts, financial writers are asking questions that are equally incredible.

Does the Fed really need banks to conduct monetary policy? Are banks really necessary to the operation of an effective and efficient payments system? Do we really need federally insured deposits as an anchor for financial system stability?

Five years ago, not many people would have been creative enough to come up with these imaginative questions. Now creative people are trying to formulate imaginative answers to them.

You may want to stake the future of the banking system on the hope that public policy makers will continue to find banking institutions essential for some public policy purpose. When governments are involved, you sometimes cannot tell what the outcome will be.

As the business historian Robert Sobel pointed out many years ago, the British government created a job in 1803 for a man to stand on the cliffs of Dover with a spyglass. He was supposed to ring a bell if he saw Napoleon coming. The job was abolished — 142 years later — in 1945.

These things do happen. But if I were a banker today, instead of relying on the government to assure my institution's continued existence, I would be working to create a strong market presence.

Bankers simply cannot create or maintain a strong market presence with the regulatory restrictions you operate under today. If you want to see banks achieve a strong market presence, you must work together to have these restrictions relaxed. Rarely have there been conditions more favorable for action:

The Chairman of the Fed, the Chairman of the FDIC and I are all strongly in favor of greater competitive opportunities for banks.

The Administration has been working in that direction for years.

Senate Banking Committee Chairman Proxmire is talking about the repeal of the Glass-Steagall act.

The nonbank bank issue that divided so much of the industry's efforts has been put to rest.

And there are several plans for greater competitive flexibility on the table — all of which vary only in degree of attractiveness — with others to come.

When looking at these plans the important thing to focus on is not who is supervising what. What is important is that all are supervised in the same way, that competitive opportunity is real.

Who can say when conditions will ever be this favorable again? Who can say if conditions will ever be this favorable again?

But it's up to you, working together, to make the case for yourselves, to take advantage of these conditions in Washington, if you expect to avoid the kind of side trip the railroads took — a trip to nowhere. No one else is going to do it for you. You must do it yourselves.

Most of all, given these conditions, the worst mistake you could make would be to allow the possibility for change to founder because of disagreements among yourselves on secondary banking issues. Sometimes deeply held differences cannot be reconciled. But they can be overlooked while you work together to achieve a more important goal. As a former law partner of mine here in Texas who served in the state legislature for 10 years puts it so eloquently: "Sometimes you just have to rise above principle and do the right thing."

Bankers aren't the kind of people who would let anything stand in the way of doing the right thing — doing what needs to be done — once you are convinced action is needed.

What needs to be done is simply this: If you think the battle in which banks are engaged in Washington is simply a fight for new powers, you need to change your minds. The battle is over the basic premise of what banks in this country should be.

Banks used to be essential to the economy. Now banks are critically important actors in the economy. But banks cannot even sustain their importance if the system's competitiveness continues to decline relative to other financial service providers.

Bankers have proven their ability to function from crisis to crisis in the past. But the crisis engulfing the banking system today has remained unresolved for half a decade. It requires more than just ingenuity on the part of bankers if it is to ever be resolved. It requires hard thought and hard work. It requires your individual effort at home, in Washington, and among your colleagues to press the point that the crisis <u>must</u> be resolved. It requires a planned, coordinated and unified political response among the thousands of institutions represented by this association.

You don't have to be a real genius to foresee where banks are headed if your individual effort and unified response aren't forthcoming. You'll find yourselves — as the railroaders would say — at the end of the line.

Throughout his long career coaching football, "Bear" Bryant had a sign hanging on his locker room that said: "CAUSE SOMETHING TO HAPPEN."

You have the opportunity now to put banks onto a different track — the right track. Cause something to happen.

Statement of Robert L. Clarke, Comptroller of the Currency, before the House Subcommittee on Financial Institutions Supervision, Regulation and Insurance of the Committee on Banking, Finance and Urban Affairs, Washington, D.C., October 28, 1987

Mr. Chairman and members of the Subcommittee, your inquiry into the need for financial reform is especially timely. It is widely recognized that a restructuring of the financial services industry is underway. Because of the absence of Congressional action, that restructuring has been haphazard and dependent upon regulatory and judicial interpretations of decades old laws. Moreover, it has produced inefficient results. Rather than designing products solely on the basis of what will best serve their customers, companies are being forced to make sure that the products they offer satisfy outmoded legal requirements. Finally, it has produced significant competitive inequalities that work to the disadvantage of consumers of financial services.

As you and others have recognized, Mr. Chairman, this state of affairs must be remedied. Clearly, it is time for the Congress to reform the legislative guidelines that govern competition in the financial services industry. A key element of that reform should be the removal of barriers that prohibit direct and across-the-board competition between commercial banks and investment banks. I would also note that although my statement this morning concentrates on the barriers between commercial banks and investment banks, many of its points are equally applicable to the need to remove barriers to equitable competition between commercial banks and other financial service firms, including insurance companies and savings and loan associations.

Some may find it ironic that we are here to discuss these issues following a week and a half of historic volatility in the stock markets. Undoubtedly, opponents of reform will cite these events as evidence that securities activities are entirely too risky for commercial banks. Although such a notion may have some popular appeal, I do not think that it withstands critical analysis.

While it is too early to determine the full effect of the current volatility, it appears that our financial system has shown considerable resilience in the face of shocks. Further, as I will explain, there are techniques of insulation that will maintain that resilience and safely permit commercial banks to affiliate with securities firms. I remain convinced that a properly structured financial system would permit the combination of investment banking and commercial banking and handle shocks effectively.

My statement today discusses some of the reasons for removing the barriers to equitable competition between commercial banks and investment banks. It then addresses why the removal of barriers to direct competition will not lead to the hazards that are often cited by those who favor retention of the status quo, focusing on the ample safeguards in existing antitrust, banking, and securities laws. (A more complete discussion of existing safeguards is appended to this statement.) Finally, the statement outlines an approach to enhancing competition that would permit affiliations between commercial banks and investment banks, wherein one could be the subsidiary of the other, in a manner that I believe would be competitively fair, sensibly regulated, and clearly in the public interest.

Reform Is Long Overdue

The Banking Act of 1933 established the ground rules for competition between commercial and investment banks. In particular, the four provisions of the Banking Act of 1933 that are known as the Glass-Steagall Act provide that, with certain notable exceptions, commercial banks may not underwrite or deal in private-sector securities nor may they be affiliates of, or share directors or employees with, firms that do. The events of recent years, however, have demonstrated that although the barriers to competition contained in the Glass-Steagall Act have impeded competition, particularly by commercial banks, they certainly have not precluded competition among commercial banking and investment banking organizations.

The Potential Benefits Are Substantial

There is wide agreement that a strong banking system is in the public interest. To ensure the strength of our banking system, the Glass-Steagall Act should be amended, and legislation that would rationalize the system for delivering financial services should be enacted. First, the law has been ineffective in separating investment banking and commercial banking and its elimination would not be the revolutionary step — for the financial services industry or its supervisors — that some have claimed. Securities firms offer the functional equivalent of commercial bank products. And although banks face considerable constraints in their efforts to meet that competition, there has been a slow, but I believe inexorable, movement towards an expansion of the range of services that commercial banks offer.

Second, reform of Glass-Steagall is critically important to the long-term health and stability of our banking system because that health and stability depends, ultimately, on the system's ability to serve its customers.

In this regard, it is important to recognize that reform is not, as some have alleged, just a "big bank" issue. In many parts of the country, consumers, all but the largest businesses, and local governments rely on their community banks for the bulk of their financial services. Part of this reliance no doubt stems from a preference for dealing with local institutions. I can see no logical reasons for a law that forces customers of local banks to take their business elsewhere to purchase the services they want when the environment changes and new financial products are developed. A recent *Wall Street Journal* article (October 5, 1987) pointed out the repercussions in the local economy that can result from such a situation: community bankers were reported to be losing deposits to nationwide investment banks marketing products such as money market mutual funds and other investments. As a consequence, such bankers were cutting back on loans to their local communities. As one banker pointed out, there is not much of a chance those denied credit could go elsewhere; investment banks do not "finance gas stations and clothing stores." The significance of this illustraiton is that our current laws severely limit the ability of banks to compete with other providers of financial services.

Third, and most important, enhanced competition would have far-ranging benefits to consumers of financial ser-

vices. The market for municipal revenue bond underwriting services provides a good illustration of this point. Commercial banks have long competed with, and alongside investment banking houses in the underwriting of municipal general obligation bonds (GOs). However, the Glass-Steagall Act has been interpreted to bar commercial banks from underwriting most municipal revenue bonds, a major source of funding for the construction of public-service facilities such as airports, hospitals, roads, and bridges. From the standpoint of the consumers of underwriting services — that is, local governmental bodies — the absence of bank competition in revenue bond underwriting raises the costs of municipal revenue bond financing. This conclusion is supported by the preponderance of a large group of studies conducted over the past two decades.

Neither the purpose nor the nature of the different bonds justifies the prohibition. The funds raised by GOs are used for the same purposes in some communities as revenue bonds are elsewhere. Furthermore, there is no compelling safety and soundness reason for prohibiting bank underwriting of revenue bonds. Banks are permitted to invest in revenue bonds; because of the short holding periods involved, underwriting involves less risk than investing. Clearly, commercial banks should be able to underwrite those bonds.

This illustrates an important point. Increased competition would result in reduction in the prices that consumers pay for services. Commercial banks are well situated to undertake many prohibited activities because they are familiar with the products and the markets involved. They now possess well developed expertise that they could use to engage directly in a number of currently impermissible activities. They know from experience how to make the required judgments and analyses.

The above examples do not, however, indicate another consumer benefit: the broader array of financial services and a more rapid and efficient response to changes in technology and the financial needs of consumers that increased competition can generally be expected to yield. We have seen the consumer benefits that have accompanied product innovations by securities firms. We can only imagine what innovations would arise from a less restricted commercial banking industry.

The Potential Risks Are Manageable

In the most general terms, the combination of traditional commercial banking and investment banking activities raises legitimate questions about the safety and soundness of both industries, conflicts of interest, and concentrations of economic power. The task before policymakers, therefore, is to design a framework for the reform of the Glass-Steagall Act that addresses those concerns, without unduly restricting the ability of commercial and investment banking organizations to respond to the needs and opportunities of the financial marketplace.

A consensus is developing among regulators, banks, some securities firms, and others to the effect that an appropriate balance can be struck in securing those competing objectives. One means of achieving that balance is to keep commercial banking activities in a separate corporation — either a national or a state bank — but to permit the commercial bank to affiliate with corporations that offer other services, including investment banking services.

There are several reasons why the principle of separate incorporation is attractive. Chief among them is that it takes full advantage of the many safeguards already available in current law that limit the transactions in which a bank may engage with affiliates or controlling persons. Separation can be used to make clear that certain activities are not supported by the federal safety net and, therefore, do not expose the Federal Deposit Insurance Corporation or the Federal Reserve System to unacceptable risks. Also, the conduct of activities in product-specific firms minimizes any ambiguity as to which laws and regulations apply to a particular firm and which supervisor is responsible for interpreting and administering those laws and regulations. That simplifies the process of supervision by functionally separate, or product-line specific, regulators.

Existing Safeguards

The safeguards I have referred to exist in current laws and regulations and address the three major areas of concern that the debate over financial reform has thus far produced — bank safety and soundness, conflicts of interest, and unacceptable concentrations of economic power. They are found in the numerous provisions of the antitrust, banking, and securities laws, many of which can trace their origins to the distressing circumstances of the 1930s.

Substantial safeguards also exist in the considerable experience, gained from years of administering those provisions, that the OCC and the other federal supervisory agencies possess. Over the years, bank regulators have gained and exercised significant enforcement authority, and bank disclosure requirements have been greatly enhanced. Enforcement authority at the banking agencies is broadly based and offers significant protection against banks and bank officers and directors who violate applicable banking laws or engage in unsafe and unsound practices. This authority enables us to issue cease and desist orders, formal written agreements, civil money penalties, and removal orders. This authority has been used to redress violations of law, including violations of federal securities laws.

These safeguards mean that financial reform does not require radical changes in our financial system. Their scope is truly far-reaching. Imposing additional burdensome restrictions on bank-affiliate relationships as some have proposed could dilute substantially the benefits financial reform can yield. The Appendix to this testimony provides an outline of the more significant safeguards present in existing law. A few are described briefly below.

Protecting Bank Safety and Soundness

Major safeguards protecting commercial bank safety and soundness are to be found in sections 23A and 23B of the Federal Reserve Act, which limit financial transactions between a bank and its affiliates and otherwise require that major transactions be on an "arms-length" basis.

Limits on financial transactions. In general terms, limits on financial transactions are stipulated in section 23A. They require that commonplace transactions between a "member bank and an affiliate shall be on terms and conditions that are consistent with safe and sound banking practices." (Section 23A is made applicable to FDIC-insured nonmember banks by section 18(j) of the Federal Deposit Insurance Act.) They are generally more restrictive than limits on transactions with non-affiliated customers. More specifically, certain transactions with affiliates (*e.g.*, loans to, letters of credit for, investments in, and purchases of assets from) may not exceed 10 percent of capital for a single affiliate and 20 percent of capital for all affiliates. Additionally, such loans and letters of credit must be secured by collateral ranging from 100 to 130 percent of the value of the loan or letter of credit. Assets purchased must be of high quality.

Other affiliate transactions must be "arms-length." Section 23B applies to all insured commercial banks and generally requires that any one of several listed transactions with affiliates must be conducted on an arms-length basis. It also prohibits a bank or any of its affiliates from agreeing or indicating that the bank is responsible for the obligations of its affiliates.

Another provision explicitly treats purchases of securities. Subject to certain qualifications, a member bank or its subsidiary is prohibited from purchasing as a fiduciary any security or asset and, whether acting as fiduciary or principal, may not knowingly purchase or acquire during the existence of any underwriting or syndication any obligation for which an affiliate of the bank is a principal underwriter.

Conflicts of Interest

The securities business is by its nature fraught with potential conflict-of-interest situations that are the subject of numerous laws and regulations. They cover the legal obligations to the public of securities issuers, securities firms and the employees of both. Among others, the antifraud provisions of the federal securities laws are an important safeguard against deceptive and manipulative practices including undisclosed conflicts of interest in connection with the purchase and sale of securities. Numerous disclosure-based and substantive protections are found in all the federal securities laws, including those applicable to the public offering and trading of securities, the activities of brokers, dealers, and investment advisors, securities exchanges and other self-regulatory organizations, and the operation of investment companies. With respect to other problems arising from bank participation in securities activities, numerous provisions of federal and state laws impose other substantive protections. All those protections would be available to customers of bank affiliates engaged in securities activities.

Bank lending decisions. Some opponents of Glass-Steagall reform have suggested that commercial banks with securities affiliates would refuse to lend money to non-affiliated securities firms. Should this occur, legal relief for the refusal of a business loan could be sought under the Sherman Act, which generally bars monopolization or attempts to monopolize. However, the best protection against this sort of abuse is found in our market structure itself. First, many independent securities firms are likely to remain. Second, with approximately 14,000 banks in our system, it is not likely that any independent securities firm would be unable to find financing. And finally, even if all independent securities firms were to disappear, vigorous application of the antitrust laws will ensure competition among firms offering both commercial banking and investment banking services.

It has also been argued that firms offering commercial and investment banking services might require that bank loans be offered to securities customers on more favorable terms than offered on other loans of comparable risk, including loans to customers of a competing securities firm. Moreover, concern has also been voiced over the use of excessive bank credit to fuel speculative securities trading.

There are numerous legal safeguards in this area. They include the longstanding statutory limits on the amount of credit banks may extend to a single borrower, such as those applicable to national banks found in 12 U.S.C. 84. They also include many protections enacted after the passage of Glass-Steagall. The Federal Reserve Board has issued regulations limiting loans made for the purposes of buying securities — the well-known margin requirements. Additionally, section 23B of the Federal Reserve Act prohibits a bank from offering credit on preferential terms to third parties in connection with transactions involving an affiliate. Bank loans to insiders for securities and other purchases are tightly governed by 12 U.S.C.

375a and 375b. Moreover, loans made to third parties for the benefit of an affiliate are to be added to other loans to that affiliate when assessing compliance with section 23B of the Federal Reserve Act. Generally, such loans cannot be on terms more favorable than those accorded other borrowers.

<u>Banks and securities issuers.</u> One allegation of those who enacted Glass-Steagall was that banks with securities affiliates, subsidiaries, or departments advised firms to issue securities needlessly or to repay loans to the underwriting bank.

It is not likely that banks would behave that way today. Conflicts of interest inherent in the investment banking business are addressed by required disclosure, and that approach could be made applicable to any conflicts of interest that might arise between a bank and its securities affiliate. There are substantial disclosure requirements applicable to securities offerings found in the Securities Act of 1933. Accurate and complete information about the financial condition of the issuer and the purposes of the offering must be made public. Use of funds to repay a loan would have to be disclosed. The disclosure of those circumstances not only protects investors but also would raise serious questions about the success of any offering of this type.

<u>Banks and bank trust departments.</u> Many opponents of Glass-Steagall Act reform have argued that bank securities affiliates will sell to a trust account, or buy from it, securities on terms not in the best interest or otherwise less favorable to the trust than could be obtained from alternative sources. Those beliefs ignore the fact that trustees are subject to numerous constraints that can be found in: (1) state statutes and common laws defining the responsibilities of fiduciaries; (2) the strictures of trust agreements; (3) federal law (section 23B of the Federal Reserve Act) that constrains the purchase by a bank fiduciary of securities from an affiliate; and (4) the examination of trust departments by federal and state officials to assure their adherence to their fiduciary responsibilities.

Business Combinations and Anticompetitive Practices

For some, reform of the Glass-Steagall Act raises the prospect of giant financial conglomerates collectively or individually controlling access to all money and capital markets. That expression of concern ignores the fact that acquisitions and attempts at collusion are subject to the antitrust laws, such as the Sherman Act and the Clayton Act.

<u>Product tie-ins.</u> Among the safeguards are statutory provisions governing product tie-ins, an issue of particular importance to opponents of financial reform. Examples of such safeguards may be found in section 1 of the Sherman Act and in 12 U.S.C. 1972. They appropriately aim at preventing sellers from coercing buyers into accepting unwanted packages of products sold by the bank alone or in conjunction with affiliated companies and from impeding the efforts of customers to deal with competitors.

Additional changes in the laws governing tie-ins are not necessary. The benefits of financial reform to consumers include conditions that promote the greatest possible variety in the packages of financial services.

A New System for Delivering Financial Services

In recent months, a number of thoughtful people have given careful consideration to the question of how to reform the system for delivering financial services. Importantly, the emphasis has been on broad questions, such as how to design a structure that takes advantage of the numerous protections that are in existing laws, rather than focusing on the more narrow issue of which activities banks and their affiliates may safely conduct.

New Affiliates for Commercial Banks

Despite their differences, virtually all proposals for financial reform recognize first that the key to a more competitive financial services industry is the removal of barriers to the kinds of businesses with which banks may affiliate, and second, that affiliation should have as its cornerstone a form of separate incorporation that would serve to insulate the bank from the affiliate. There are a number of forms of affiliation that involve separate incorporation, including affiliations through a holding company, a venture that is owned by more than one firm, or fully owned subsidiaries of banks. All deserve consideration. No one form of organization brings with it any clearly demonstrated superiority over the other.

In fact, I see no reason to force any particular form of affiliation on the private sector. Just as banks have chosen to place some currently authorized activities in fully owned subsidiaries, they may choose to conduct new activities in subsidiaries. They should continue to have the freedom to choose, and having chosen, should be regulated and supervised in the same way and subject to the same rules and regulations, regardless of who their supervisor may be.

Another important question involves determining which activities should be permitted to be conducted in a bank and which should be required to be conducted in an affiliate that would be subject to the full range of safeguards noted above. Several possibilities have been proposed. They include requiring that all activities not now in the bank be placed outside the bank. An alternative sug-

gestion is that a list of activities that are distinct from "banking" activities be made, with all entries on that list required to be conducted in an insulated affiliate.

It is obvious that it is not necessary, on safety and soundness grounds alone, to put all investment banking activities in separately incorporated firms. For example, those in which the commercial bank acts solely as broker, intermediary, or consultant with little, if any, of its own funds at risk could be conducted within the bank with little risk to the deposit insurance fund. Others may pose risks that are similar to those banks face in currently permitted activities — risks with which bankers and their supervisors are familiar.

In addition to risk factors, however, there are issues of competitive and regulatory equity that should be considered. There is a certain appeal, for example, to having all underwriting activities regulated by the SEC. Nonetheless, concern has been expressed that separation solely for the purpose of regulatory convenience could result in the inappropriate application of safeguards and could dilute the benefits of financial reform.

A rational method for making this determination will have to be arrived at in conjunction with settling the substantive issues of structural reform.

Additional Safeguards

Making decisions about forms of corporate separateness and the placement of activities outside the bank will be significant accomplishments. They will not, however, put all the major tasks behind us. Although, as I indicated earlier, consumer and other safeguards are plentiful, more can and should be done. First, financial reform legislation that provides for the conduct of certain activities through subsidiaries of banks should apply the restrictions on transactions with affiliates contained in sections 23A and 23B of the Federal Reserve Act to transactions between a commercial bank and those subsidiaries.

Second, bank supervisors could do much to ensure that bank capital is insulated fully from the potential risks of affiliation by deducting a bank's investment in such affiliates from the bank's stated capital when assessing the adequacy of bank capital. As long as the corporate veil remains intact, therefore, bank investments in affiliates could not threaten the adequacy of bank capital. Thus, there would be no need to limit the size of such investments.

Finally, in order to strengthen the corporate veil, we should consider the benefits of amending the national banking laws to prohibit national banks from being held liable for the obligations of their affiliates, unless specifically assumed by a prior contractual arrangement or in egregious cases such as gross negligence or willful misconduct. Such legislation could promote bank safety and soundness as well as competitive equity by making it clear to the public that products offered by affiliates of banks are in no way protected by the safety net that supports the bank itself.

Conclusion

Clearly, it is time for the Congress — under the leadership of this Subcommittee — to guide the restructuring of the financial services industry. I urge the Congress to amend the Glass-Steagall Act and permit greater competition between commercial banks and securities firms.

Permitting greater competition will not require radical changes in law or supervisory practices to ensure protection of the public interest. Substantive concerns can be largely addressed through existing safeguards, including use of our enforcement powers to remedy isolated abuses that may arise. It would be a mistake to assume — as Congress did in 1933 — that broad categories of securities activities are inherently too "risky" or fraught with "hazards" and should be flatly prohibited for banks. Rather, as with any banking activity, we simply must ensure that the activities are conducted in a safe and sound manner.

In structuring financial reform, organizations wishing to combine banking with other activities should be able to choose from a wide variety of business structures. The principle of separate incorporation should be used to insulate the insured banking component from activities that could expose the federal safety net to undue risk and to facilitate functional regulation.

I look forward to working with the Congress in forging new ground rules for competition in the financial services marketplace that will yield substantial benefits for all participants.

Appendix

Existing Safeguards for Regulating Transactions Between Banks and Their Affiliates

The existing statutory framework provides numerous safeguards which apply to transactions between a bank and its affiliates. These safeguards protect against preferential lending, tie-in requirements, conflicts of interst, unfair trade practices, and fraudulent or unsafe and unsound practices.

I. Bank Transactions with Affiliates

A. <u>Section 23A</u>

Section 23A of the Federal Reserve Act (12 U.S.C. § 371c) restricts transactions between member banks and their

affiliates. Section 18(j) of the Federal Deposit Insurance Act (12 U.S.C. § 1828(j)) extends the coverage of Section 23A to nonmember insured banks. The objective of Section 23A is to prevent the misuse of a bank's resources that might result from the bank's financial transactions with its affiliates. This objective essentially is achieved by

- placing quantitative limitations on "covered transactions" between a bank and its affiliate;
- establishing collateral requirements (from 100 to 130 percent) for certain transactions;
- requiring that all transactions be on terms and conditions that are consistent with safe and sound banking practices; and
- prohibiting the bank's purchase of low-quality assets from an affiliate.

Section 23A applies to various "covered transactions" between a bank and its affiliates, including:

- loans or extensions of credit to an affiliate;
- the purchase of, or investment in, securities issued by an affiliate;
- the purchase of assets (including assets subject to repurchase) from an affiliate, except for real or personal property specifically exempted by the FRB;
- the acceptance of securities issued by an affiliate as collateral security; and
- the issuance of a guarantee, acceptance or letter of credit (including an endorsement or standby letter of credit) on behalf of an affiliate.

A bank's covered transactions with any single affiliate may not exceed 10 percent of the bank's capital and surplus. Furthermore, the total amount of a bank's transactions with all of its affiliates is limited to 20 percent of the bank's capital and surplus.

B. <u>Section 23B</u>

Section 23B of the Federal Reserve Act (enacted as Section 102(a) of the Competitive Equality Banking Act, (Pub. L. No. 100-86)) places additional limitations on transactions between federally insured banks and their affiliates. The objective of Section 23B is to ensure "arms length" transactions between a bank and its nonbank affiliates. Section 23B provides that a bank may engage in certain transactions with its affiliate only

- on the terms and under circumstances (including credit standards) that are substantially the same or at least as favorable to the bank and its subsidiary as those prevailing for comparable transactions with nonaffiliated companies, or
- in the absence of comparable transactions, on terms and under circumstances that in good faith would be offered to or would apply to nonaffiliated companies.

In addition to the "covered transactions" of Section 23A, Section 23B applies to the following transactions:

- the sale of securities or other assets to an affiliate including assets subject to a repurchase agreement;
- the payment of money or the furnishing of services to an affiliate under contract, lease or otherwise;
- any transaction in which an affiliate acts as an agent or broker or receives a fee for its services to the bank or to any other person; and
- any transaction or series of transactions with a third party if an affiliate has a financial interest in the third party or an affiliate is a participant in the transactions.

As additional protection, Section 23B prohibits the following:

- A bank's purchase as fiduciary of any securities or other assets from an affiliate unless the purchase is permitted under the instrument creating the fiduciary relationship, by court order or appropriate law.
- A bank's purchase or other acquisition, as principal or fiduciary, during the underwriting of any security if an affiliate is a principal underwriter (unless the purchase or acquisition is approved by a majority of bank directors who are not officers or employees of the affiliate prior to the offering of the security to the public).
- A bank's advertisement of entering into an agreement stating or suggesting that the bank will be responsible for the obligations or an affiliate.

The definition of "affiliate" under Sections 23A and 23B includes the parent holding company, other nonbank subsidiaries of the parent holding company, or companies that are commonly owned by the bank or parent holding company. A nonbank subsidiary and, for most

purposes, a bank subsidiary of a bank or sister bank subsidiaries in a holding company are not covered by the restrictions of Sections 23A and 23B. The Federal Reserve Board may determine on a case-by-case basis that, because of potential detriment to the bank, these subsidiaries should be subject to the coverage of Section 23A.

Under sections 23A and 23B, any bank transaction with a third person shall be deemed a transaction with an affiliate to the extent that the proceeds of the transaction are used for the benefit of, or transferred to, the affiliate.

II. Lending Limitations: Individual Borrowers

The National Bank Act (12 U.S.C. § 84) limits extensions of credit by a national bank to any single borrower to 15 percent of capital and surplus. Loans secured by readily marketable collateral are permitted up to an additional 10 percent.

III. Lending Limitations: Officers, Directors, and Shareholders

Sections 22(g) and (h) of the Federal Reserve Act (12 U.S.C. §§ 375a and 375b) restrict extensions of credit by a member bank to its executive officers, directors and principal shareholders. These restrictions also apply to officers, directors and principal shareholders of a parent bank holding company, a subsidiary of the holding company, or a company controlled by these persons. The extension of credit must be made on a nonpreferential ("arm's length") basis, and may not involve more than the normal risk of repayment or exceed the individual lending limit of 12 U.S.C. § 84. Loans are allowed only up to a limit prescribed by the regulator with prior approval required for loans of a certain amount (*e.g.*, $25,000 or five percent of the bank's capital or surplus).

Section 106(b) of the Bank Holding Company Amendments Act of 1970 (12 U.S.C. § 1972) establishes similar requirements for extensions of credit made to officers, directors and principal shareholders of correspondent banks.

IV. Purchase of Securities From Directors

Section 22(d) of the Federal Reserve Act (12 U.S.C. § 375) prohibits a member bank from purchasing from any of its directors any securities or other property unless (i) the purchase is made in the regular course of business and on an "arm's length" basis or (ii) the purchase is approved by a majority of the bank's board of directors. Similarly, a member bank may sell securities or other property to a director only if the sale is on an arm's length basis and in the regular course of business.

V. Anti-Tying Restrictions

Section 106 of the Bank Holding Company Amendments Act of 1970 (12 U.S.C. § 1972 *et seq.*) generally prohibits a federally insured bank from providing services or extending credit on the condition that a customer obtain an additional service of the parent holding company or an affiliate (or refrain from obtaining services of a bank competitor). The Act provides injunctive relief and treble damages as remedies for the injured customer.

VI. Restrictions on Payment of Dividends

Various restrictions apply to the declaration and payment of dividends by a national bank. Dividends may not be paid out of capital (12 U.S.C. § 56). In addition, national banks and state member banks must receive regulatory approval before paying, in any calendar year, dividends exceeding the total of the year's net profits combined with the retained net profits of the preceding two years (less any required transfers to surplus) (12 U.S.C. § 60).

VII. Securities Law Requirements

A. General

The federal securities laws provide a comprehensive framework for the regulation of participants in the securities markets — such as brokers, dealers, investment companies and investment advisers — as well as the timely disclosure of relevant information regarding companies whose securities are offered to the public and traded in the nation's securities markets. While banks are exempt from certain of these provisions, bank holding companies and bank subsidiaries and affiliates generally are subject to federal securities law requirements and the safeguards provided by those provisions.

B. Registration and Disclosure Requirements

Section 3(a)(2) of the Securities Act of 1933 (15 U.S.C. § 77c(a)(2)) exempts banks from the registration requirements of the Act with respect to the securities they issue or guarantee. However, bank holding companies and affiliates and subsidiaries of banks are generally not exempt from those registration requirements. Several banking agencies, however, have adopted disclosure regulations governing bank sales of their securities. The Securities Exchange Act of 1934 imposes registration and disclosure requirements on banks with publicly traded securities and permits the federal bank regulatory agencies to promulgate and enforce periodic reporting and proxy regulations which are substantially similar to comparable Securities and Exchange Commission regulations. *See* 15 U.S.C. § 78*l*(i).

C. Anti-Fraud Provisions

All banks and their affiliates are subject to the anti-fraud provisions of the federal securities laws in connection

with their securities transactions. Under these laws it is unlawful to employ any device, scheme or artifice to defraud, or to make any untrue statement of a material fact, or to omit to state a material fact necessary to prevent a statement previously made from being misleading, or to engage in any other act or practice or course of business which would operate as a fraud or deceit on a person in connection with the purchase or sale of any security.

D. Conflicts of Interest Safeguards

Disclosure of material information to investors and shareholders is a basic principle underlying the securities laws. Specific disclosure obligations established under the Securities Act of 1933 and Securities Exchange Act of 1934, as well as the antifraud provisions referred to above, would require the affirmative disclosure of significant conflicts of interest in registration statements, proxy statements, or other documents filed by banks and other companies pursuant to those acts. For example, if a corporation proposed to use the proceeds of a securities offering underwritten by a bank affiliate to repay a loan to the bank, that fact would have to be disclosed in the prospectus.

In addition, numerous other provisions of the federal securities laws impose substantive regulatory requirements on many classes of securities professionals and entities, including brokers, dealers, municipal and government securities dealers, investment advisers and investment companies. Several of these provisions are designed specifically to regulate activities related to conflicts of interest. *See, e.g.*, Section 17 of the Investment Company Act of 1940, 15 U.S.C. 80a-17, governing transactions of companies with affiliates; Section 36 of the Investment Company Act of 1940, 15 U.S.C. § 80a-36, governing breaches of fiduciary duties of investment companies and their advisers; Section 206(3) of the Investment Advisers Act of 1940, 15 U.S.C. § 80b-6(3), governing prohibited transactions by investment advisers; and the Trust Indenture Act of 1939, 15 U.S.C. §§ 77aaa *et seq.*, governing generally the distribution of debt obligations pursuant to indenture.

E. Use of Credit in Securities Markets

Investor use of credit in the securities markets is subject to extensive regulatory oversight. Section 7 of the Securities Exchange Act (15 U.S.C. § 78g) authorizes the FRB to promulgate regulations governing the amount of credit which may be used to finance the purchase of any security. The FRB has adopted regulations covering extensions of credit by brokers and dealers (Regulation T) and by banks (Regulation U). It also has regulations covering extensions of credit by persons other than brokers, dealers and banks (Regulation G), the obtaining of credit by persons other than brokers or dealers (Regulation U) and arranging for others to extend credit in the securities markets (Regulations G, T, and U). In addition to regulations covering extensions of credit, brokers and dealers are subject to restrictions governing their borrowing activities.

F. Financial Responsibility Provisions

Brokers and dealers are subject to a number of requirements that safeguard the financial condition of the securities firm and protect customers' funds and securities. Brokers and dealers are subject to minimum capital requirements designed to provide operational safeguards against risks associated with the securities business. *See* Exchange Act Rule 15c3-1, 17 C.F.R. § 240.15c3-1. Customer funds and securities are protected from a number of risks. For example, brokerage firms must have fidelity bonding insurance to protect customers against dishonesty or misfeasance of employees (NASD Rules of Fair Practice, Section 32). In addition, customer funds and securities must be segregated and generally cannot be used by a firm to support its underwriting and dealer operations. *See* Exchange Act Rule 15c3-3, 17 C.F.R. § 240.15c3-3.

VIII. Federal Bank Regulatory Authority

A. Examination Authority

The National Bank Act authorizes the OCC to examine a national bank and the affairs of its affiliates as may be necessary to disclose fully the relationship between the entities and the effect of this relationship upon the bank (12 U.S.C. § 481). Pursuant to the Bank Holding Company Act, the FRB is authorized to conduct examinations of the holding company and all subsidiaries of a holding company, including the nonbanking subsidiaries (12 U.S.C. § 1844). In addition, under the Federal Reserve Act, the Board may examine all affiliates of a state member bank (12 U.S.C. § 338). Similar authority is granted to the FDIC with respect to affiliates of insured banks (12 U.S.C. § 1820(b)).

B. Enforcement Authority

- Cease and Desist Authority

  The federal bank regulators have cease and desist authority to address violations of law and unsafe and unsound practices, and violations of any law or regulation by banks under their supervision (12 U.S.C. § 1818). This authority allows the regulatory agencies to institute proceedings requiring any bank or bank holding company (or its directors, officers, employees, or agents) to cease and desist from unsafe and unsound practices or violations

of law, and to take whatever affirmative action is necessary to correct the conditions resulting from the violations or practices. In addition, the FRB may require the termination of any holding company activity or a holding company's ownership of any nonbanking subsidiary that is judged to threaten the safety, soundness, or stability of the holding company's banks (12 U.S.C. § 1844(e)). The OCC has similar authority to terminate activities of bank operating subsidiaries.

- Civil Money Penalty Authority

Various federal statutes (12 U.S.C. §§ 93, 504, 1818, 1828, 1972) give the federal bank regulatory agencies authority to assess civil money penalties against any bank, officer, employee or agent responsible for the violation. In addition, the FRB has civil money penalty authority for violations of the Bank Holding Company Act (12 U.S.C. § 1847). Violations of 23A, 23B and other statutes which restrict transactions between a bank and its affiliates are generally punishable by civil money penalties not exceeding $1,000 per day for each day during which the violation continues.

- Removal Authority

Federal bank regulators also have authority to suspend or remove any director or officer of an insured bank who has engaged in unsafe and unsound banking practices, a breach of fiduciary duty or violations of law which result in loss to the bank, prejudice to depositors' interests or insider gain, and which involve personal dishonesty or a willful disregard for the bank (12 U.S.C. § 1818(e)). As a result of such a removal, the directors and officers also may be prohibited from participating in the affairs of any other insured bank without the approval of the appropriate federal regulator (12 U.S.C. § 1818(j)).

- Securities Enforcement Powers

The federal bank regulators may take administrative actions against banks that act as municipal or government securities dealers, transfer agents or clearing agencies (15 U.S.C. §§ 78o-4(c)(5), 78o-5(c)(2), 78q-1(c), (d)).

- Investigatory Powers

The federal bank regulators have investigatory powers that extend to a bank, officers, directors or employees or agents of the bank, or its affiliates. The regulators may issue a formal order of investigation which extends to entities or persons which are not national banks or employees of national banks.

C. Reporting Requirements

National banks must file with the Office of the Comptroller of the Currency four times a year reports that disclose fully the relations between a bank and its affiliates (12 U.S.C § 161). These reports must be verified by the oath of each affiliate's president or other designated officer. State member banks must file identical reports with the FRB three times a year (12 U.S.C. § 334). Any national or state member bank that fails to furnish the required reports is subject to a penalty of $100 for each day the violation continues.

D. Capital Adequacy

The International Lending Supervision Act authorized federal bank regulators to establish the minimum capital required of banking institutions (12 U.S.C. § 3907). Currently, this rate is 6 percent of assets. Capital requirements can be changed on a case-by-case basis or for an entire class of banks through general regulations. Banking agencies may issue a directive to require a particular institution to establish a plan to increase its capital.

E. General Rulemaking Authority

Federal banking agencies have general rulemaking authority (*e.g.*, 12 U.S.C. § 93a) which may be used to promulgate new regulations or amend existing regulations as needed to provide appropriate safeguards for banks and their customers.

F. Application and Approval Requirements

The Office of the Comptroller of the Currency requires prior notice and opportunity to disapprove activities to be conducted in national bank subsidiaries. Furthermore, the OCC examines the subsidiary and may take enforcement action or order the termination of any activity that endangers the safety and soundness of the bank. The Bank Holding Company Act requires the FRB to review and approve each application to perform a nonbanking activity, other than activities specifically authorized by statute (12 U.S.C. § 1843(c)(8)).

IX. FDIC's Bona Fide Subsidiary Protections.

The FDIC has promulgated regulations to govern bank transactions with affiliated securities companies (12 U.S.C § 337.4). These provisions permit state chartered nonmember banks to engage in a full range of securities activities through a bank "bona fide" subsidiary or affiliate, provided the activities are authorized under state law. The conditions which must be met for the establishment of a

bona fide subsidiary include

- adequate capitalization,
- separation of accounting and other corporation records;
- observance of separate formalities such as separate board of directors' meetings;
- maintenance of separate employees who are compensated by the subsidiary;
- having a majority of directors that are neither officers nor directors of the bank;
- no common officers with the bank;
- physical separation of the operations;*
- separate name and logo;* and
- conducting business pursuant to policies and procedures independent from the bank so as to inform customers that the bank and the subsidiary are separate organizations (including clear disclosure that the obligations of the subsidiary are not obligations of the bank) and subsidiary investments are not insured by the FDIC.*

There are no restrictions on the types of securities that can be underwritten by a subsidiary if: (1) the securities business, whether de novo or by acquisition, has been in continuous operations for 5 years; (2) it is in good standing with the National Association of Securities Dealers (NASD); (3) its insiders have not been subject to injunction or Securities and Exchange Commission order; and (4) each of its supervisors has 5 years of experience. Otherwise, underwriting is limited to investment quality debt and equity, shares of mutual funds that invest exclusively in investment quality debt and equity, and shares of money market mutual funds.

Other safeguards for the establishment and operation of a bona fide subsidiary include:

- the requirement that the FDIC be given 60 days' notice of intent to establish or acquire a securities subsidiary; and
- restrictions on the extension of credit to a securities subsidiary or affiliate (Section 23A) or to companies the securities of which are to be underwritten by the subsidiary.

*The FDIC is considering a revision of 12 C.F.R. § 337.4 which will (i) delete the separate name and logo requirement, (ii) modify the requirement for physical separation of the bank and affiliate operations, and (iii) require more specific disclosure requirements under certain circumstances.

Remarks by Robert L. Clarke, Comptroller of the Currency, before the Community Rights and the Banking Industry Conference, Chicago, Illinois, November 13, 1987

One of the first things I did after being named Comptroller of the Currency was to meet in Washington with many of you back in April 1986. For those of you who were at that meeting, I'm happy to see you again. For those of you who were not, I'm pleased to be with you for the first time today.

When Gale invited me to speak she suggested that I comment on three topics: the current state of bank safety and soundness, the current state of bank compliance with federal laws and regulations, including the Community Reinvestment Act, and the future of the banking system.

In considering how I should address the topics Gale suggested, I began thinking about the giraffe who became infatuated with a butterfly. The giraffe didn't quite know how to pursue the relationship. So he consulted the wise old owl for advice. After careful consideration of the giraffe's problem, the wise old owl replied: "The answer is simple, you must become a butterfly."

The giraffe, delighted, dashed off into the jungle, but quickly returned to the owl to pose the obvious, but puzzling, question. He asked the owl: "How do I become a butterfly?" And the owl calmly replied: "I set policy, I don't implement it."

I have come to learn that — like the owl — the Office of the Comptroller of the Currency also sets policy, at least to some extent. But I have also learned, in very real terms, that unlike the owl we mostly implement the policies of others, namely the Congress and the President. They establish laws governing the banking system and the priorities and activities of bank regulators, including those that are the topics of this conference.

I must say that the topics posed by Gale have significant implications for us all as consumers and users of bank-

ing services. Some are easy to address. Others may leave us with uncertainties somewhat like those faced by the poor giraffe. So let me begin with the issue of the safety and soundness of the banking system.

Monitoring the condition of the national banking system is a major job that Congress expects the Office of the Comptroller of the Currency to do. It is not, however, the only task we perform.

We help rehabilitate banks that have experienced problems. Last year, 125 such national banks were rehabilitated. We search out fraud and abuse within institutions. We promote sound operating systems and policies, which we believe lead to a better managed and safer banking system. And, as you know, we are also charged with examining the institutions under our supervision for compliance with a variety of federal laws and regulations, some of which relate directly to the banks' responsibilities to their communities and customers, such as CRA and Regulation Z, to name two; and some of which are in place for other public policy purposes, such as the Bank Secrecy Act.

When we find institutions that are not operating in compliance with these laws and regulations, the lawmakers expect us to ensure that these institutions will take corrective steps to do so.

But all of our diverse tasks are performed against the backdrop of the condition of the banking system. What is the condition of the banking system today? Quite frankly, the signals are disturbing.

The financial condition of most institutions is adequate. The condition of a few institutions is extraordinarily good, but this number is declining. And a relatively small, but significant, number of institutions have experienced — and are experiencing — serious financial difficulties. Last year 138 banks failed. That total doesn't include assisted institutions. This year that number may grow to around 200. It already stands at 159. And of the almost 5,000 national banks in this country, about 1,250 — one quarter — are under special supervision by the OCC. That means they are receiving additional and closer attention from our office.

Clearly, the banking system is experiencing major problems. Some of these problems arise from bank customers who have their own problems: farmers, energy producers, real estate developers. But some arise from a drastic slowing in demand from corporations for bank loans to meet business' financial needs over the last 10 years. And some arise from the explosion in the number of alternative financial service providers that compete directly with banks.

The short-term — and the long-term — financial problems the banking system is experiencing are of great concern to all three federal bank regulators

The short-term problems, domestic loans to farmers, energy producers, real-estate developers and others, appear to be lessening. And we, along with other policymakers in Washington, are exploring changes that would address the long-term problems, problems in banking structure, too.

At the OCC, we have also altered our system of monitoring and supervising bank safety and soundness to perform those tasks in a manner which we believe to be more effective and more efficient. In a nutshell, our current approach is to continue to conduct on-site examinations and to rely more on off-site surveillance to monitor the condition of banks. At the same time, we are using our judgment to a greater degree than in the past to focus on those institutions where weakness in the bank would more likely wash over and weaken the banking system.

We are also in the process of adapting our approach to compliance to achieve parallel ends. We are placing greater emphasis on assessing the banks' own systems to ensure compliance. Having these systems in place and operating will, we believe, result in a much higher overall degree of compliance all day, every day. And we are using our judgment more in targeting those institutions where noncompliance, including noncompliance with the intent of the Community Reinvestment Act, would have the greatest impact on bank customers and their communities.

Last month we met with representatives of major national community and consumer organizations, some of which are co-sponsors of today's conference, for a half-day briefing on our revised compliance program. I won't go over all the details we discussed then. But there are a few points I wish to stress.

The most important point is probably this one: we will continue to use the uniform CRA procedures that the other bank supervisory agencies use.

Beyond th., I would like to emphasize that we have two goals for our compliance program: we want to be fair to bank customers and we want to be thorough in our examination of institutions.

At the same time, we are making absolutely clear to bank management that compliance is, without doubt and without qualification, a management function deserving the same effort as other management functions.

To use a basketball analogy, we are trying to educate bank management that when it comes to compliance, the ball is in their court, but as referees we will penalize

them if we find them out of bounds. And we will be watching — not from the sidelines — but on the court.

How we will be watching — how our compliance examination program works — will be explained in more detail by John McDowell, Director of OCC's Consumer Activities Division, later today.

Gale asked me to comment on one other question today: "If banks are granted expanded powers, what will the financial institutions of the future look like, and how will this affect both safety and soundness and compliance with CRA?" Gale, you all know, doesn't have a reputation for asking easy questions.

I cannot say what banks will look like if the business they are authorized to perform is expanded. Why? Because I cannot predict just how — and along what lines — it will be expanded. Furthermore, after the events of the last few weeks, no one in his or her right mind would predict the timing of those changes.

But, for the sake of discussion, let's say that sometime in the foreseeable future banks are allowed to perform the securities, insurance and real estate functions that other financial providers perform today. In a very real sense, it would be up to the individual institution to choose the businesses in which they would concentrate.

Some, I am sure, would come to resemble the financial conglomerates of today, such as American Express. Others are likely to remain primarily banks, but banks with enhanced services in specific areas, say banking and securities affiliated together, as was the case with many institutions before the passage of the Glass-Steagall Act. Merrill Lynch may be taken as a model for that strategy. Yet others may transform themselves into retail outlets for financial services — following in the footsteps of the Sears Financial Network in function — but acting as agents rather than originators for those services.

I hope such changes are forthcoming. In fact, I do more than hope. I am working in Washington to promote these changes.

Why? From watching the condition of the banking system deteriorate for more than a decade, it is clear to me that the only way the banking system can reverse its slide is for bankers to be granted the tools they must have to pull themselves up. In other words, an expanded product line.

Does this mean that if the business of banking is expanded, all banks will be successful in enhancing their financial and competitive position? Not in the least. Some will. Others won't.

But I agree with the writer Damon Runyon who once said "The race may not be to the swift nor the victory to the strong, but that's how you bet." In a world where there are no sure things — other than death and taxes — I'm willing to wager that the more competitive a bank is allowed to be, the greater the odds it will turn out to be a winner. Conversely, the less competitive a bank is allowed to be, the greater the odds it will turn out to be a loser.

More immediately for the discussion today, if a bank is profitable, it is in a better position to comply with the laws and regulations of the land, particularly those dealing with the provision of services to its customers and community. If a bank is unprofitable, the less able it is to comply with the laws and regulations of the land. If a bank is unprofitable long enough, it is in no position to comply with the laws and regulations of the land — and is certainly in no position to provide benefits to the community it serves.

Under the portrait I've painted of future financial institutions, there may be few direct benefits for the constituencies of the sponsors of this conference.

Cheaper insurance may be a direct benefit, as a Consumer Federation of America study released earlier this year strongly suggests. Cost savings from an expanded product line may lessen the costs of the current services that your constituencies are interested in. Pumping new services through existing branch systems may determine whether a particular branch stays open or not.

Expanding the product line for banking may provide a framework for banks in the future to fold in other services that your constituencies may be interested in. Whenever I reach two "mays" in one statement, as I did in the last one, I know it is time to stop gazing into my crystal ball.

All of these things may occur — or they may not.

But what will occur if the business of banking is widened is a greater likelihood of banks enhancing their financial condition. What does that mean for you? And what will it mean if banks continue to decline? As some of the more politically savvy folks around, the sponsors of this conference don't need me to answer those questions. You can answer them for yourselves.

I would just like to stress that, no matter how far the business of banking is widened, as long as the CRA remains on the books and as long as financial institutions have federal charters we will expect national banks to recognize both the letter and the intent of that law. And we will hold them accountable when they don't.

Our expectation, and bank accountability, will be evident in thorough examinations and in a number of other ac-

tivities conducted by the OCC designed to encourage banks to live up to their CRA obligations under the law.

I would just like to leave you with this observation: The major challenge for bank supervisors is one of maintaining balance . . . balance among the legitimate, but often conflicting, interests of banks and their customers . . . balance in examination priorities and judgments . . . and balance among regulatory obligations under the CRA and the need to ensure safe and sound bank operations.

We intend to maintain this balance, so that the interests of all are fairly considered.

Statement of Robert L. Clarke, Comptroller of the Currency, before the House Subcommittee on Commerce, Consumer and Monetary Affairs of the Committee on Government Operations, Washington, D.C., November 19, 1987

I am pleased to respond to your invitation to testify today on the efforts of the Office of the Comptroller of the Currency to counter insider abuse in the nation's national banks. Accompanying me is the Office's Deputy Chief Counsel for Operations, Robert B. Serino. As many of you know, Mr. Serino has been a stalwart in the law enforcement community and instrumental in much of the progress made in the enforcement efforts of the OCC.

This Subcommittee's concern about insider abuse in the nation's financial institutions and its focus on the supervisory and enforcement communities' responses to such activities have been welcomed by the OCC. We share the Subcommittee's concern for the safety and soundness of the nation's financial system. We do not tolerate abuse of banks, and we are committed to strengthening the bank's defenses against such activities and to responding vigorously to penalize those who commit such abuses.

We share your belief that the process works best with cooperation and communication between and among the law enforcement agencies and the financial institution regulators. We are happy to report that the process is working well today. We concur in the words that adorn the courtyard of the FBI that: "The most effective weapon against crime is cooperation . . . the efforts of all law enforcement agencies with the support and understanding of the American people." We have seen marked improvements in interagency efforts and can cite numerous accomplishments. We continue, of course, to work to improve the process.

Responses to the detailed questions you posed in your letter of invitation are included in the attached appendix to this statement. This material supplements the lengthy responses we previously provided to Subcommittee staff. Today, I would like to address the general themes identified by your questions.

Insider Abuse in National Banks

Let me make clear at the outset, the OCC believes strongly that no level of bank fraud or insider abuse is acceptable. Such fraud and abuse must be vigorously pursued and those who commit it must be punished. We maintain surveillance of the activities of insiders. Laws and regulations pertaining to insiders and the bank's systems for ensuring compliance with such laws and regulations are targeted for review in OCC's examinations. When instances of serious insider abuse do occur, they are answered with the strongest enforcement actions at our disposal — civil money penalties and removals. Moreoever, whenever there is evidence of fraud, whatever the source, the matter is expeditiously referred to the Justice Department for criminal prosecution.

Despite our best efforts to combat fraud and insider abuse, however, there has always been and there will no doubt always be a small percentage of those who will seek to take advantage of their positions. Some of these may even manage to escape or delay detection of their activities. Cases involving nominee loans, "kickback" schemes, fictitious loans, or excessive or hidden compensation are difficult to detect — particularly if the individual involved is intent on concealment.

In the past several years, we have seen record post-Depression era numbers of national bank failures, with 48 in 1986 and 57 so far this year. We know that improper insider transactions are contributing factors in some bank failures; but we also know that the majority of failures are better explained by different factors, including poor management and economic problems. The interrelationship between these factors is often complex, however, and the real impact of each can be difficult to assess accurately. The OCC's experience indicates, however, that insider abuse is a significant contributing factor in approximately one-third of the national banks that fail, and fraud is a

major causative factor in a considerably smaller percentage of the failures.

While we share the Subcommittee's concern about real and potential fraud and misconduct affecting national banks, we are concerned that the matter be kept in perspective. We should not lose sight of the fact that most national banks are free of insider abuse. To say that insider abuse of national banks is widespread or of epidemic proportions is unfair to the vast majority of men and women who routinely perform their banking duties in a safe and lawful manner. One of the reasons significant cases of insider abuse or fraud are considered sensational news is that they <u>do not represent the norm</u> in the national banking system.

The large number of bank and thrift failures in the last several years, together with the publicity given to certain failures that seem clearly to have resulted from fraud and insider abuse, have led some to conclude that such activities are rampant and that <u>most</u> failures result from them. This is not correct. Care must be taken not to generalize to the national banking system as a whole from isolated but highly publicized instances of bank fraud, or the problems of certain sectors of the industry or parts of the country.

Combatting Insider Abuse

As part of our responsibilities for ensuring the safety and soundness of the nation's national banking system, we continue to work to strengthen the bank's own defenses against fraud and insider abuse and other problems affecting banks' safety and soundness. With responsibility for the system's nearly 5,000 national banks, we have sought methodologies that use our resources to provide the system the most effective coverage. In doing so, we have sought to pursue and harness the banks' best lines of defense — strong, effective management with sound systems of internal controls and active, knowledgeable directors. Management and the board have the primary responsibility to protect their institutions; their continual on-site presence enables them to monitor carefully the bank's activities.

We have, for instance, directed our examination efforts to ensure that banks have their own systems and controls necessary for management to anticipate and identify problems and to deal with them as they occur. Instead of concentrating on the evaluation of individual transactions — as was done in the past — we have redirected our examination attention to the systems and controls under which bankers make transaction decisions and monitor their results. Management is being held accountable for those systems and their operation and a greater emphasis is being placed on the role of bank directors in overseeing management's performance.

This approach to bank supervision, of course, cannot prevent all cases of fraud or insider abuse or eliminate all bank weaknesses — nor can any other approach. But we believe that effective, functioning systems of internal controls provide the best defense against most forms of abuse.

In addition, in our supervision of banks' compliance, we are examining banks specifically for compliance with laws and regulations in a number of important areas, including, or course, the laws governing insider transactions. One of the by-products of these examinations is our ability to determine the extent to which particular compliance problems are likely to exist in other national banks. This data will enable us to target guidance to banks and better focus future examination efforts.

The OCC's enforcement efforts also have been carefully geared to address instances of insider abuse forcefully and to increase their deterrent effect. Our enforcement policy emphasizes the importance of proceeding against insider abuse and serious violations of laws or compliance problems. Where such problems are identified, enforcement actions follow. As a result, in the last year, we have increased the percentage and severity of actions taken against individuals. In addition, we have begun on a case-by-case basis to make public the facts of our enforcement actions. We believe that in certain circumstances the deterrent value of the exposure makes public disclosure appropriate.

OCC Resources

In all of this, our success depends on the ability of our personnel to detect problems early and to tailor supervisory strategies for individual banks. Key to this ability is an examining staff of adequate size and experience. Although we have had recent increases in the size of our examining staff, the mix of examiners by experience level is currently of greater concern to us than the size of the examining staff. Unlike other professionals that we employ, virtually all of our examining talent is homegrown. We typically hire new college graduates, and following approximately 5 years of both formal and on-the-job training, qualified employees are commissioned as national bank examiners. Efforts are made to recruit personnel with banking, accounting, or other experience, but these efforts have met with only limited success.

Currently, a quarter of the field examiner positions that would ideally be staffed by commissioned national bank examiners are held by less-experienced assistant and associate national bank examiners or are unfilled. Because of the number of years it takes to develop commissioned examiners, we project that this reliance on less-experienced staff will continue for at least the next 5 years.

The shortage of experienced examiners may be attributed to several factors. Hiring freezes have left gaps in our experience levels. In 1986, the OCC instituted a hiring freeze in order to meet the Gramm-Rudman-Hollings sequestration.

Existing salary constraints also contribute to the problem. They impede our ability to compete with private-sector employers when recruiting prospective employees. But where the ceiling hurts the most is in the difficulty it creates in retaining staff — seasoned with experience — who want to make a career of professional bank supervision. The loss of career staff has been particularly serious in high-cost areas, where we do not currently maintain competitive compensation and benefit programs. The banking industry traditionally has used the OCC as a recruiting source, and, recently, other federal regulators, who can offer higher salary potential than the OCC, also have hired our bank examiners. As banks consolidate, we expect the need for examiners in high-cost metropolitan areas will increase. As the scope of those banks' operations increases, the need for highly skilled and experienced examiners will become more acute.

Greater flexibility in our compensation program would go far toward reducing examiner turnover and would enhance the attractiveness of a professional career with the OCC. We applaud Administration efforts, such as the proposed Civil Service Simplification Act, to address problems in federal compensation. There is, of course, no single, easy remedy. We recognize that development of a more complete solution must include reasonable controls on compensation levels consistent with overall fiscal responsibility.

The Importance of Boards of Directors and Bank Audit Efforts

Boards of directors bear primary responsibility for ensuring that their banks are not abused and that they operate in compliance with the law. As part of our supervisory efforts, we are looking to bank boards of directors to become more active and effective guardians of the safety and soundness of their institutions. Directors represent an on-site resource with a personal stake in the bank's safe and sound operation. Not only do they represent ownership of the bank, but they also have potential personal liability, should problems develop.

Seeking to better tap this resource, we prepared an extensive review of the duties and responsibilities of national bank directors. In September, we published *The Director's Book—The Role of a National Bank Director*, a comprehensive guide to the bank director's responsibilities. In it, we spelled out the important role of the board and its members, and we highlighted areas that directors should watch most closely. We stressed the importance of systems of controls, of appropriate monitoring and audit coverage, and of conflict of interest policies and procedures. We described the director's individual responsibilities and provided practical suggestions on how to meet them. We also informed directors of the nature of their liabilities and explained the OCC's enforcement authorities. Copies of the book were distributed to all national banks and, in response to requests, state banks and banking authorities, and the general public. More than 70,000 copies have been distributed.

In addition, we have worked closely with the FDIC in drafting joint agency *Guidelines for Financial Institution Directors*. We are pleased that the promulgation of guidelines has been jointly endorsed by the supervisory agencies and that these guidelines will soon be available to the industry. We are also working to develop other training aids. In addition, senior officials of the OCC participate in conferences all around the country to discuss with bank directors their responsibilities.

Our goal in these efforts has been to improve the effectiveness and diligence of the boards of directors of banks because we believe that knowledgeable and active directors can contribute much to their institutions. They, like bank management, have the responsibility and the presence in their institutions necessary to oversee and monitor operations and to ensure that adequate controls are in place and functioning. They provide a strong line of defense in their individual institutions and thus can do much to enhance the safety and soundness of the banking system.

Independent audits by qualified auditors can assist the bank boards in meeting their responsibility to oversee the operations of the bank and can help with the establishment of sound systems of internal controls. The OCC encourages all national banks to obtain audit coverage from qualified independent auditors. At this time, approximately 70 percent of all national banks are audited directly or are included in consolidated audits of bank holding companies. The boards of directors of banks are required to consider external audit coverage and to document in the minutes of their meetings any decision not to provide such coverage.

Banks subject to higher than normal risk may be required to obtain audit coverage. For example, newly chartered national banks are required, as a condition of approval of the charter, to be audited annually for the first 3 years of their operation. Properly implemented, this start-up audit requirement helps to ensure that internal controls and an adequate financial reporting system are in place in their institutions. The OCC has also required audits, other CPA involvement, and special counsel reports in banks where examiners detect other higher than normal risk. Situations that are likely to trigger such a requirement include, for instance, banks with inadequate internal controls and audit

procedures and banks in which evidence of insider abuse or criminal activity exists

Some have suggested that an annual audit requirement is appropriate for all banks. While I wholeheartedly support the goals of such a requirement, I have questioned the value of placing an audit requirement on all banks. I question whether the value received justifies the cost for the smaller bank and believe that in some cases something less than a full-scale opinion audit may provide equal benefit.

Moreoever, I think the more important issue is the <u>quality</u> of audit work being done in banks. I believe that our efforts should first be devoted to ensuring that the audits that are undertaken are meaningful. As banking becomes more complex, the auditor's task, like our own, becomes more challenging.

In an effort to improve cooperation and coordination between external auditors and examiners, the OCC initiated discussions with the AICPA's banking committee to develop mechanisms for auditors and examiners to share information and experiences. As a result of these discussions, we implemented a pilot program last year that we hope will help to improve examiner/audit communication and interaction. We believe the program has promise — examiners and auditors are beginning to share targeted risks and audit examination methodologies. Ideally, it will result in the improved use of both of our resources. We would hope that through joint work planning sessions and the exchange of information techniques, auditors' and examiners' efforts would better complement each other, permitting auditors and examiners to provide more meaningful and comprehensive coverage.

Interagency Coordination and Consultation

We share the Subcommittee's belief that full cooperation and consultation between and among the regulatory and enforcement agencies are critical to successful efforts to combat fraud and abuse. We are pleased to report that such cooperation has increased markedly in recent years. As the Subcommittee is aware, the Bank Fraud Working Group has demonstrated that the federal financial institution regulatory agencies and the Department of Justice can work together successfully to improve coordination and to attain common goals. We provided a full discussion of the Group's numerous accomplishments as part of our June 15, 1987 submission to the Subcommittee. (Pursuant to your request, we will not repeat the list of accomplishments here, but we would like to incorporate that discussion by reference.) We would highlight, however, that under the Group's aegis, the agencies jointly developed Bank Bribery Act guidelines to aid the banks in the development of their codes of ethics and also recommended legislative initiatives to address common enforcement concerns.

The Group's success has spawned similar groups to address other issues of common concern. The Treasury Department has used the Working Group format in the Bank Secrecy Act area, and the Department of Justice is using it as a model to coordinate enforcement efforts in other regulatory communities. The OCC has also encouraged formation of groups similar to the Bank Fraud Working Group to improve cooperation within the international law enforcement community. The OCC is proud of its participation in and contribution to the important work being done by these groups.

The agencies have also worked together to foster communications and understanding among their personnel. For example, the OCC has worked in cooperation with the Federal Financial Institutions Examination Council (FFIEC) to open our agency's in-house White-Collar Crime Seminar to all of the other regulators throughout the FFIEC. The OCC continues to carry a major teaching responsibility at that seminar. Further, the OCC participates in the joint training sessions with the FBI in the area of white-collar crime in financial institutions at least three times a year in various parts of the country.

We have also worked to improve communications and coordination at the local levels. We have established points of contact within our district and Washington offices to facilitate other agency communications. Our District Counsel make periodic trips to the U.S. Attorney's and FBI offices within their districts to maintain appropriate contacts and coordination on ongoing cases.

In addition to this coordination, OCC has actively supported prosecutions in individual cases by providing documentation and examiner expertise. In numerous instances, OCC has made its examiners available to serve as agents of grand juries or to act in a consultive capacity. One of the OCC's most senior examiners, who has been designated as a Special Assistant in the Enforcement and Compliance Division, is assigned on a full-time basis to track questionable offshore shell bank activities and advance fee schemes and serve as a clearinghouse of information in this regard for state, local, federal, and international law enforcement authorities. He has testified on numerous occasions as an expert in cases involving bank fraud. His efforts have been instrumental in obtaining a number of important indictments and convictions.

Two OCC examiners have been working with the Justice Department full-time in New York on cases arising from the closing of the Golden Pacific National Bank. Recently, we have also detailed an attorney from our enforcement section to work as a Special Assistant U.S. Attorney to assist in cases arising from apparent frauds involving the Del City (Oklahoma) National Bank. The OCC has also taken steps to encourage joint under-

takings with U.S. attorneys to fashion plea agreements that make full use of the civil and criminal enforcement penalties.

Our recent experience in the Del City matter (described in detail in the Appendix to the statement) provides a good example of the success of our interagency efforts.

Interagency Exchanges of Information

The OCC routinely makes available information from its Enforcement and Compliance Information System (ECIS) to other supervisory agencies. Moreoever, as soon as we detect any indication of possible criminal activity, our examiners alert the appropriate law enforcement authorities. Where institutions subject to the jurisdiction of other agencies are involved, such as in the Del City case, we immediately notify the other regulatory agencies. In fact, the OCC actively encourages FBI and U.S. Attorney involvement at the time of a bank closing where fraud is suspected. For instance, prior to the closing of the Golden Pacific National Bank in 1985, the OCC had numerous conversations with and urged the involvement of the FBI and the U.S. Attorney's Office when fraud was suspected. Our efforts generated a very active investigation that has resulted in significant indictments being returned against two principals of the bank. More recently, immediately preceding a closing in the same city, the OCC again worked with the U.S. Attorney's Office to encourage immediate investigation and action. This interaction led to the issue of a significant complaint and arrest.

Moreoever, as we become aware of schemes used to defraud or otherwise abuse national banks, we alert the industry and our sister supervisory agencies to the events. In addition to targeted advisories like the one we issued in Del City, as a matter of course we issue banking circular advisories alerting national banks and federal and state banking authorities to questionable practices or entities operating in the industry. During the past year, we issued approximately 30 such banking circulars. In one case, for instance, we provided notice of the questionable activities of a company, Common Title Bond & Trust. The OCC has received information that the company was not authorized to conduct a banking and trust business in at least one state in which it was operating and that its drafts being circulated in several states might be worthless. Partly due to the OCC's vigorous efforts, this entity is now the subject of multi-jurisdictional investigations and prosecutions.

Despite our efforts, additional improvements can be made. We continue to face obstacles to the full and expeditious sharing of information necessary to fully effective law enforcement efforts. First, we need an effective, centralized system for sharing information among the enforcement and supervisory agencies and for identifying repeated offenses. For that reason, we applaud the FBI's efforts to develop the Field Office Information Management System (FOIMS). Efforts should be made to get this system operational.

Second, we have, since 1978, urged legislative changes to the Right to Financial Privacy Act (RFPA). While we supported the amendments made last year, which gave bankers who provide more explicit information regarding suspected criminal activity some protection from violating the RFPA, we were disappointed that the Congress did not enact the Administration's proposal. These proposals came out of the work of the Bank Fraud Working Group, which unanimously adopted them, concluding they were essential to improving the system. Agencies and banks should have the authority to provide federal prosecutors with all lawfully gathered information needed to support a criminal referral, without a grand jury subpoena or customer notification.

Third, we continue to endorse the unanimous proposal of the Bank Fraud Working Group that changes are needed to eliminate the grand jury secrecy restrictions in rule 6(e). If a law enforcement agency possesses information obtained through the grand jury process, which if known to us, would enable us to exercise our supervisory or enforcement authority to protect the institution or its depositors, there should be a way for the law enforcement agency to share that information. A legislative proposal submitted last year by the Department of Justice as part of its anti-fraud proposals would have made the transfer of information possible in a manner fully consistent with the purposes to be served by grand jury secrecy. The OCC continues to support the Department of Justice proposal that was sent to this Congress on September 23, 1987, and deems it essential to good cooperation.

Efforts by the FBI and Federal Prosecutors

We have been pleased to see the FBI and Department of Justice committing additional resources to investigating and prosecuting bank fraud. They have increased their participation in parts of the country experiencing special problems, sending in special teams of FBI agents and U.S. Attorneys to help handle the caseload.

While none of us ever has all the resources we would like given the extent and complexity of our responsibilities, the FBI and Justice Department have focused resources on bank fraud, and we encourage them to continue to do so. Their continued commitment and the prioritizing of financial institutions fraud as a major concern within the law enforcement community are essential.

Other Issues

The OCC has worked with the other federal financial institutions supervisors to identify additional enforcement

authorities that would better equip us all to protect the nation's financial institutions. Among these proposals is one to clarify that the cease and desist authority provided under 12 U.S.C. 1818(b) includes the right to order directors of a national bank to reimburse their bank for losses resulting from their knowing violations of law. The OCC strongly believes that the 7th Circuit Court of Appeals' decision in *Larimore v. The Comptroller of the Currency* unduly restricts an otherwise broad Congressional intent to provide the regulatory agencies with wide discretion in formulating appropriate forms of relief in response to violations of law or unsafe or unsound banking practices. We urge favorable consideration of the recommended amendment, already submitted by the Treasury Department, that would make the OCC's authority clear.

Additionally, the proposed enforcement language that the Federal Reserve Board, the FDIC, and the Federal Home Loan Bank Board have recently transmitted to the Congress reflects the Bank Fraud Working Group's consensus on other needed authorities. Generally stated, these proposals would, among other things, strengthen our hand in dealing with insiders who are abusing their institutions. We support these efforts and hope to have the opportunity to discuss them with you once they have been fully reviewed within the Administration.

Conclusion

The OCC is deeply committed to the elimination of insider abuse and bank fraud in all forms. We believe that much progress has been made in the federal government's efforts to combat insider abuse and misconduct in our nation's financial institutions. Our efforts are better coordinated and our resources are better focused to address the system's risks.

The OCC stands ready to work with Congress, our sister financial institutions regulatory agencies, and the law enforcement community to continue a coordinated and comprehensive response to the threat posed to the integrity of our nation's financial system by such abuse. To assist us in our efforts, we encourage the Congress to consider favorably legislative proposals which would eliminate present restraints on our efforts in working with the law enforcement community and its working with us.

Appendix to Testimony of Robert L. Clarke, Comptroller of the Currency Before the Commerce, Consumer, and Monetary Affairs Subcommittee of the Committee on Government Operations, November 19, 1987

A. Nature and Extent of Abuse and Misconduct in National Banks

1. a. (Question). Please present in your oral statement data on the numbers of problem national banks and national bank failures (as provided in the OCC's 11/6/87 submission)

1. a. (Answer). As indicated in OCC's response of November 6, 1987, national bank failures for the years 1984 through the first half of 1987 as as follows:

1984	17
1985	30
1986	48
1987 (1st half)	37

The number of "4" and "5" rated national banks for the period 1984 to present is as follows:

1984	198
1985	266
1986	326
1987	314

1. b. (Question). Please explain the OCC's inability , as contrasted with the NCUA, the FDIC and the FHLBB, to correlate and quantify in some measure the existence of insider (or affiliated outsider) abuse or criminal misconduct in problem and failed national banks.

1. b. (Answer). As indicated in OCC's response of November 6, 1987, without doing a bank by bank study of the circumstances surrounding alleged insider (or outsider) abuse, it is impossible to accurately quantify the extent of such abuse. The same is true of the losses which may result. While information is available which would indicate how many times violations of laws relating to insiders have been cited in reports of examination and in enforcement actions, this information would be of limited utility in determining the true extent of insider abuse, since such listings would not indicate the gravity of the violation or the dollar amounts involved.

OCC believes that the presence of fraud or insider abuse in national banks cannot be tolerated. OCC maintains surveillance over the activities of insiders. Laws pertaining to insiders are targeted for review in OCC's examinations. When insider abuses do occur, the OCC takes appropriate enforcement actions. OCC's enforcement policy singles out insider abuse as one of three circumstances that warrants a strong presumption of an enforcement action. Cases of serious insider abuse receive our strongest forms of enforcement response, including civil money penalties and removals. Evidence of fraud, whatever the source, is referred for criminal investigation.

Despite our best efforts to detect and respond to instances of insider abuse or fraud, however, there has always been and there will no doubt always be a certain small percentage of those persons involved in banking who will seek to take advantage of their positions. Some of these may even manage to escape or delay detection of their acti

vities. Cases involving nominee loans, "kickback" schemes, fictitious loans or excessive or hidden compensation will always be difficult to detect — particularly if the individual involved is intent on concealment. However, those who engage in such activity, as in any other business or professional endeavor, risk significant civil and/or criminal sanctions.

While we should all be concerned about real and potential fraud and misconduct affecting national banks, it is also important to keep this concern in proper perspective. We should not lose sight of the fact that most national banks are free of insider abuse. To say that insider abuse of banks is widespread or of "epidemic" proportions is unfair to the vast majority of men and women who routinely perform their banking functions in a safe and lawful manner. One of the reasons significant cases of insider abuse or fraud are considered sensational news is that they do not represent the norm.

The large number of bank failures in the last several years, together with the publicity given certain failures that seem clearly to have resulted from some combination of fraud or insider abuse, have led some to conclude that most bank failures result from fraud or insider abuse. In OCC's experience, insider abuse is a significant contributing factor in approximately one-third of the national banks that fail, and fraud is a major causative factor in a considerably smaller percentage of the failures.

With respect to the criminal misconduct, OCC's study of one month's total filing of criminal referrals indicated that approximately 25 percent of those referrals involved insiders. The majority of bank failures and problems leading up to failure continue to result primarily from a combination of poor management and adverse economic conditions.

In order to maintain a proper perspective on this problem, it is also important to keep in mind that the total number of national bank failures in the last ten years represent only 3 percent of the population of approximately 5,000 national banks.

2. (Question). Based on the agency's analysis of those criminal referrals included in the Criminal Division's Significant Referral Tracking System, please identify (a) any discernible trends or patterns of fraud or other misconduct, and (b) the types of institutions most affected (such as by categories of asset sizes or geographic distributions).

3. (Question). Are certain types of misconduct becoming more prevalent and are certain schemes being utilized more frequently, particularly in both non-problem and problem national banks? What kinds of misconduct, if any, are more difficult for OCC examiners to detect?

2. and 3. (Answer). (Answers to Questions 2 and 3 have been consolidated in that they deal with similar issues.) The OCC has not detected any specific patterns of fraud schemes, or other misconduct involving national banks.

The most difficult type of misconduct for examiners to detect involves any activity in which an active effort is made by officers, employees, or others to conceal the transaction. These transactions take such forms as nominee loans, fictitious loans to non-existent borrowers, improper expense payments and kickbacks or payoffs. The OCC feels the most effective deterrent against and detection of these types of transactions and any other form of misconduct is the development of an effective system of internal controls, audit procedures, and conflict of interest policies by the banks themselves. By way of example, the OCC, working with the Bank Fraud Working Group, has recently developed guidelines for national banks under the Bank Bribery Act designed to protect the banks and its insiders from unlawfully accepting or offering gifts or gratuities in connection with bank business. The OCC is encouraging all national banks to incorporate these guidelines into their Codes of Ethics.

OCC's supervisory approach is intended to ensure that banks have the systems and controls required to anticipate and identify misconduct and to deal with problems as they occur. OCC's goal is to ensure that a bank's management is held accountable by its board of directors for the development of adequate procedures, policies and systems and for their operation.

This approach to bank supervision cannot detect all cases of fraud or insider misconduct. Indeed, someone intent on concealing unlawful activity may successfully evade detection for a considerable period of time. However, appropriate internal controls and audit procedures can help to deter misconduct and may enable the bank and the OCC to better detect potential problems at an early stage. Finally, where OCC examiners do detect evidence of fraud or insider abuse, they are instructed to refer such matters for appropriate supervisory action and/or submit criminal referrals.

4. (Question). Describe for the subcommittee the fraudulent misconduct which has been perpetrated on a large number of federally insured institutions in the State of Oklahoma. Describe (a) the specific steps in the fraudulent scheme, including specifically the role of faulty real estate appraisals; (b) the allegations against Ronald Collier & Bruce Thompson; (c) the number of banks and thrifts affected and the impact in terms of problem status, insolvencies and losses to national banks (and, if known), to state banks and S&Ls; (d) the OCC's and Justice Dept's resources devoted to this investigation, and (e) OCC's supervisory responses. (Feel free to present the data from the OCC's 11/6/87 response.)

4. (Answer) On May 27, 1987 the OCC suspended Ronald L. Collier, President, Chief Executive Officer and Director of the First National Bank of Del City, Del City, Oklahoma, from his positions at the bank. Collier had authorized or approved over $4 million in real estate loans to affiliated persons and entities in the Oklahoma City area deemed by the OCC to be unsafe and unsound. On July 23, 1987, Collier stipulated to an OCC Order barring him from future employment at any federally insured financial institution.

Contemporaneous with Collier's suspension, the OCC issued a letter to all national banks in Oklahoma referencing the hazards of making loans for the purchase and improvement of single and multi-family structures where those loans exhibited certain unsafe and unsound characteristics. Shortly thereafter, the Oklahoma State Banking Department issued a similar notice to all Oklahoma state-chartered banks.

The OCC took this serious action against Collier, and considered and is considering whether to pursue administrative actions against other individuals and national banks in the Oklahoma City area, in an effort to limit a real estate loan scam that was perpetrated on financial institutions in that area. A large volume of loans was made by a number of local financial institutions to a well known real estate operator in the Oklahoma City area for the purported purpose of purchasing and renovating dilapidated residential real estate properties in the Oklahoma City area. These loans, which were generally short-term, were made based upon an "as improved" value of the properties rather than an "as is" value. This was done despite the fact that the loan applications invariably failed to include detailed plans for the renovation of the property. In addition, the full amount of the loans was paid up front by the lending institutions rather than over time upon the partial completion of the renovation of the properties. As a result of these up front payments, the lending institutions were undersecured when the borrower failed to make the renovations to the properties.

Moreoever, the appraisals that accompanied the loan applications generally reflected grossly inflated property values. Subsequent appraisals of these properties, which have now been obtained by banks in the area under orders from or with the encouragement of the OCC, have demonstrated that the underlying value of these properties is only a fraction of the value originally appraised and loaned on these properties. The combination of lending the full amount of these purchases and renovation loans up front combined with the grossly over-appraised values of the properties contributed to significant losses by the lending institutions when the loans were not repaid or rolled over.

These loans first received public notoriety following the OCC's administrative action to suspend Collier from banking. Collier initially elected to contest the suspension in Federal District Court, however, he withdrew the action prior to the scheduled hearing date. Those proceedings, unlike most OCC administrative actions involving an open bank, were on the public record. Following Collier's removal from the banking industry, the OCC issued a press release describing Collier's activities and the nature of the loans.

Upon its discovery of these transactions, OCC immediately contacted the U.S. Attorney and the Department of Justice Fraud Section. Since that time, the OCC has actively pressed the U.S. Attorney for the Western District of Oklahoma, the FBI and the Department of Justice Fraud Section to conduct a major investigation into this matter. In May and again in June 1987, OCC representatives met with William Price, United States Attorney for the Western District of Oklahoma, representatives of the FBI's Oklahoma City office, and representatives from the FDIC, Federal Home Loan Bank of Topeka, and the Oklahoma State Banking Department to discuss these loans. These meetings, at which the OCC was an active participant, served to coordinate the regulators' and law enforcement efforts in determining the breadth of the scheme and to identify the participants involved.

The OCC estimates that approximately twenty national banks in Oklahoma have these loans in their loan portfolios. While most of these banks originated the loans, several banks obtained participation interests in these loans. A number of these banks are problem institutions in part due to their retention of, or as a result of, their writing down these loans. OCC believes approximately seven state banks and several savings and loans in the Oklahoma City area also face losses due to these loans.

While the OCC does not have a precise estimate of either the total dollar amount of the loans made, or the probable dollar losses arising from those loans, it is estimated that probable losses arising from these loans are in the multi-million dollar range.

The OCC is requiring national banks in the region to mark these loans down to their actual market value. This is accomplished through legitimate appraisals of the properties and a recognition by the affected banks that a significant percentage of these loans are effectively undersecured or unsecured and that repayments on the loans have virtually ceased. Over time, OCC estimates the bulk of each of these loans is likely to be written off as loss. To date, the write-down of these loans proved to be a contributing, although not deciding, factor in the failure of at least two national banks.

The OCC is aware that Department of Justice's Fraud Section and the FBI are continuing to actively investigate

this situation. Due to the volume of loans made and the geographic distribution of the lending institutions, OCC believes that additional resources will likely be needed to fully review and prosecute all individuals involved. To assist in this effort, OCC's Enforcement and Compliance Division (E&C), recently detailed a staff attorney to become a Special Assistant U.S. Attorney to work with the Justice Department's Fraud Section to assist in the investigation and prosecution of this matter. This attorney, in conjunction with representatives of DOJ's Fraud Section, the FBI and the U.S. Attorney's Office, is working on a number of fraud investigations. Due to the grand jury secrecy restrictions imposed by Rule 6(e), OCC is not apprised of the status of these investigations or even their targets. OCC, however, is strongly encouraged by this cooperative effort and is pleased to contribute an attorney to assist on a full-time basis.

Since this matter is presently under investigation by the Justice Department, the OCC is not at liberty to discuss the case further and does not have information as to which, if any, person or persons relating to these transactions are currently under investigation by the Justice Department. OCC believes that any determination to release information regarding the investigation would be more appropriately made by the Department of Justice.

B. Manpower Resources and Frequency of Examinations

1. Manpower Resources and Difficulties

1. a. (Question). Please describe examiner manpower levels for FY 1985, 1986 and 1987, indicating (i) the net increases in numbers of examiners, (ii) the numbers of examiners which have left the agency, and (iii) the number which have been hired. How many examiners is the agency planning to hire in 1988? Have salaries been increased?

1. a. (Answer). The chart below reflects the number of OCC examiners for the years 1985-1987, as well as new hires, separations and net increases.

Year	*Total Examiners*	*New Hires*	*Separations*	*Net Increase*
1985	2184	360	282	78
1986	2205	289	268	21
1987	2408*	453	250	203
1988		250*		

*Projected

Annual surveys compare OCC salaries with those in the banking industry. Surveys for 1985, 1986 and 1987 supported salary structure increases of 5.5 percent, 7.4 percent and 16 percent, respectively; however, Treasury held OCC pay schedule increases to the Congressionally determined cost of living increases granted to the rest of the federal work force. Pay schedule increases for 1985 were 3.5 percent, there was no increase in 1986, and OCC examiners received a 3 percent increase in 1987. As a result the salaries of OCC examiners have not remained competitive with the banking industry. This is particularly serious in high cost areas where we cannot maintain competitive compensation and benefit programs. In addition, other federal regulators have become successful competitiors for OCC personnel because of the higher salaries they can pay, particularly at the senior and executive levels. Average pay increases for SES employees leaving the OCC to join other organizations in 1986-87 have been 119 percent over their OCC salaries. For examining staff, such increases have been 18.6 percent over their OCC salaries.

1. b. (Question). In which regions or states has the agency made the greatest percentage increases in the number of examiners?

1. b. (Answer). The districts with the greatest increase in number of examiners since 1984 are as follows:

Midwestern	34%
Southwestern	49%
Western	10%

The mix of examiners by experience level, however, is currently of greater concern to us than the size of the examining staff. Unlike other professionals that we employ, virtually all of our examining talent is home-grown. We typically hire new college graduates, and following approximately 5 years of both formal and on-the-job training, qualified employees are commissioned as national bank examiners. We are making a concerted effort to recruit personnel with banking, accounting, or other transferable experience. Our goal for 1988 is to hire 50 percent of our examiners from this group. Such efforts in the past have met with limited success.

Existing salary limitations impede our ability to compete with private-sector employers when recruiting prospective employees, especially in high-cost areas. But what hurts most is the difficulty they create in retaining staff — seasoned with experience — who want to make a career of professional bank supervision. The banking industry traditionally has used OCC as a recruiting source, and recently, other federal regulators who can offer higher salary potential, also have hired our bank examiners and executives.

As banks consolidate and banking transactions become more sophisticated, we expect the need for experienced examiners particularly in high-cost metropolitan areas will increase. As the scope of those banks' operations increases and banking transactions become more sophisticated, the need for highly skilled and experienced examiners will become more acute.

1. c (Question). For FY 1988 how many examiner positions did the OCC initially propose to the Treasury Department, and then how many did the Treasury Department propose to OMB? What was the final submission to Congress? Do you have any final figures on examiner manpower levels in FY 1988? In addition, please discuss your difficulties in attracting and keeping legal staff and supervisors.

1. c (Answer). For FY 1988, 3,275 FTE's were requested by OCC, and the Treasury Department ultimately proposed 3,200 FTE's to OMB. OCC is awaiting final approval by OMB. To repeat a point made at greater length above, the overall staffing level is of lesser concern to us than our mix of experience.

OCC, and other Federal agencies for that matter, have experienced similar hiring and turnover problems with respect to its legal staff and supervisors. The current maximum starting salary for attorneys is substantially less than those being offered in the private sector and is often less than being offered by some of the other bank regulatory agencies. This becomes even more significant in view of steadily increasing costs associated with obtaining a legal education which often results in law school graduates beginning their practice with substantial student loans. Increasingly, however, OCC is experiencing difficulty in attracting candidates initially and in keeping them once they are here. With respect to supervisors, the prospects of greatly increased salaries in private practice have led to a steady drain of talent at the top. Enactment of the President's Civil Service Simplification Act would help to address problems in federal compensation.

2. (Question). (a) What is the actual frequency of OCC examinations at present for (i) non-problem institutions and (ii) problem institutions, and what was it in the recent past? Do you have any data showing frequency of examinations for failed national banks? If so, please provide. (b) What examination frequency would you prefer, and how many examiners and how much time would it require to reach that frequency? (c) Has the agency done any studies or analyses to determine whether there is a correlation between either frequency of examinations or time elapsed since the last examination and the existence of insider abuse or misconduct?

2(a) and (b). (Answer). The OCC approach to supervision involves ranking national banks according to the degree of risk presented and then effectively utilizing examiner resources to address the areas of greatest concern. Supervision of national banks is an ongoing process involving both on-site and off-site reviews. Examiners are assigned individual banks and it is their responsibility to determine how best to address the concerns of a particular bank.

Each institution supervised by the OCC has a supervisory strategy specifically tailored to that bank. These strategies are developed annually, with updates performed as circumstances change. Generally, once a year the OCC sends the bank a Report of Supervisory Activity (ROSA). This report addresses supervisory actions vis-a-vis the bank and steps the bank should take to respond to the findings. The frequency of examinations is commensurate with the need for examination as determined on a case-by-case basis. National banks in need of closer supervisory attention are examined much more frequently, particularly those which present clear risks of failure.

In terms of compliance with laws and regulations, the OCC has developed a program geared to such compliance areas as Trust, EDP, Bank Secrecy Act, etc. For banks with total assets over $1 billion, a biennial compliance review is performed. Banks with assets equal to or less than $1 billion are selected under a random sample and those selected receive a thorough compliance review.

The OCC is dedicated to this supervisory approach and feels that the system will allow us to effectively monitor risks and compliance problems within the national banking system and take corrective action when problems are identified.

OCC has done no studies on the question of potential correlation between frequency or timing of examinations and insider abuse or misconduct. However, we are not aware of any increased insider abuse or misconduct occurring in banks that are visited less frequently. Furthermore, in cases where our off-site review of individual banks indicates potential abuse, we initiate an on-site review regardless of the regular examination schedule.

C. Proposals to Improve Audit Capabilities and Rely on Boards of Directors to Prevent or Detect Fraud or Other Misconduct

1. (Question). The FDIC has proposed requiring independent financial audits of all State non-member banks it supervises. However, it believes that "for an audit requirement to be most effective, it should apply to all insured banks," not simply the banks for which it is the primary regulator. Hence, FDIC staff has been working with staff of the OCC and the FRB to gain their cooperation in developing a joint audit requirement applicable to all banks. Do you favor an audit requirement for all national banks, particularly in view of the time elapsing between examinations? If not, why not?

1. (Answer). The OCC believes that there are significant benefits to independent audits of banks by qualified auditors. This belief is evidenced by Banking Circular No. 190 issued by the OCC to all national banks on March 18, 1985, which not only encourages national banks to have audits conducted in accordance with generally accepted audit

ing standards, but also requires a national bank's board of directors to document its reasons for deciding not to obtain an audit.

OCC has two reservations concerning any requirement for annual audits of all banks. First, such a requirement raises questions regarding the potential burden to smaller banks imposed by such a requirement. OCC believes there is a point at which audits cease to be cost effective for banks. The FDIC apparently shares this belief in that the audit requirement that they have been discussing includes a floor based on asset size, below which the requirement would not apply. Secondly, OCC believes that it is more appropriate to focus on both the overall quality of audits and the need to ensure that boards of directors adequately respond to concerns raised in those audits.

Approximately 70 percent of national banks are already directly audited or included in consolidated audits of bank holding companies. These institutions represent virtually all national banks that would be covered by the audit requirement that the FDIC has been discussing.

Unaudited national banks tend to be the smaller institutions; those for which audits may not be cost effective. They represent a small percentage of insured national bank deposits. Therefore, they pose less systemic risk. However, the OCC has taken steps to address the risks inherent in this smaller segment of the bank population by targeted audit requirements. Presently, the OCC requires that annual audits be conducted in newly chartered banks for the first 3 years of their existence — a time of comparatively high risk. This start-up audit requirement helps ensure that internal controls and an adequate financial reporting system are in place early.

Additionally, procedures exist which direct OCC examiners to require audits or other CPA involvement in banks where they detect higher than normal risk. These situations are discussed in Policies and Procedures Manual Issuance 5310-10. They include, but are not limited to, banks with inadequate internal controls and audit procedures; banks in which there is evidence of insider abuse or criminal activity; and banks where director liability may exist. In certain instances we have required through a formal administrative action that banks obtain appropriate audits.

2. (Question). The Federal Home Loan Bank Board requires the submission of audit reports by thrift institutions to district bank supervisors within 15 days of the receipt of the audit report. However, all of the other Federal bank regulatory agencies, including your own, only require that examiners review the report during the next examination. In view of the frequency of agency examinations, would it not be useful to issue a similar agency requirement, notwithstanding the lack of an audit requirement, to promptly receive and review audit reports in order to detect problems early on and, as necessary, take prompt supervisory action?

2. (Answer). The Agency has generally considered the in field review of audit reports to be satisfactory. However given the scheduling of field examinations under OCC's current supervisory approach, there may be merit in requiring banks to submit audit reports to facilitate off-site review. This proposal will be reviewed and examiners' comments sought as to its potential for supervisory benefit.

3. (Question). None of the bank regulatory agencies requires (as opposed to allows) that examination reports be provided to independent auditors hired by financial institutions. In their responses to the subcommittee, all of the agencies (but the NCUA) expressed concerns that mandating disclosure of examination reports to independent auditors would compromise the ability to keep the reports confidential. I sent to the Federal Reserve Board my views on a proposed regulation which furthers this policy (see the attached 10/9/87 letter). Please respond to my concerns that troubled institutions or ones in which misconduct is occurring will not volunteer such examination reports and my belief that it is possible to place conditions on the auditors who review such reports. These conditions could include on-site reviews and written pledges of confidentiality, particularly appropriate in view of a certified public accountant's ethical duties to its client

3. (Answer). The policy of the Comptroller's Office has been to allow banks to make Reports of Supervisory Activity available to independent auditors. The policy explicitly states that the report may be made available to the auditors by the bank.

As to the concern that some banks may not volunteer their reports of examination to auditors, we understand that the AICPA Banking Committee is addressing this possibility. To the extent that a recent report has not been completed or made available to the auditors, the proposed auditing standard would require auditors to question the examiners directly about the bank and the report of examination. The AICPA is in the process of soliciting comments on a statement on auditing standards which would require that auditors review reports of examinations.

Notwithstanding the above, the OCC has implemented a pilot program to encourage better examiner/auditor communication and interaction. The program which ran from January through May of this year was launched following discussions with the AICPA Banking Committee. The levels of cooperation and interaction achieved in each of the twelve national banks varies from meetings in which targeted risks and examination and audit methodologies were shared to a full joint examination/audit of the reserve for loan losses in one bank. Preliminary responses to the program indicate a better mutual understanding between auditors and examiners and improved communications

The program is being expanded and continued into 1988 to further explore its benefits to banks, their auditors and the OCC. The potential product of the program is a permanent vehicle for guiding and fostering this exchange.

4. Proposals to Increase Responsibilities of Boards of Directors

4. a. (Question). The FDIC is working with all of the other bank regulators to develop a code of conduct for bank directors, to place more responsibility on them. (i) What actual proposals are being considered? (ii) Which proposals do you support? (iii) Which proposals do you oppose?

4. a. (Answer). From the beginning, the OCC has worked closely with the FDIC in preparing and is looking forward to publication of the proposed joint agency issuance — *Guidelines for Financial Institution Directors*. In September of this year, the OCC itself published an extensive book entitled *The Director's Book, The Role of a National Bank Director,* to help directors understand the important role they play. Copies of this book were sent to the members of this subcommittee.

The Director's Book contains a comprehensive discussion in layman's terms which fully explores the scope of a director's responsibilities and potential liabilities. The book has been extremely well-received. More than 70,000 copies were distributed in its first 6 weeks and it has been adopted as a "textbook" for a variety of director education seminars around the country. Through such efforts OCC will continue to stress the role of directors and their duties and responsibilities.

4. b. (Question). Does the OCC require that management send to the boards of directors copies of all information and formal civil enforcement of supervisory actions? If not, why not? If so, how is compliance enforced?

4. b. (Answer). The OCC deals primarily with a bank's board of directors in the implementation of an enforcement action. Therefore, it is usually the board which has first-hand knowledge of the action and its requirements and thus it become the board's responsibility to inform management, rather than the other way around.

The above is specifically true with regard to commitment letters, memoranda of understanding, formal agreements, orders to cease and desist, temporary orders to cease and desist and notices of charges. Each of these actions is initiated by service upon the full board of directors. This is generally accomplished by the OCC at a meeting of the directors. Similarly, each of these actions (with the exception of temporary orders to cease and desist, notices of charges and capital directives which are all effective upon service) is made effective through either the board's consent, obtained at a meeting of the directors, or the administrative litigation process, during which the board is the *de facto* respondent.

As for the suspension and removal actions, the OCC routinely makes a bank's full board of directors aware of such a proceeding against an officer or director of the bank.

5. c. (Question). Two agencies have suggested to the subcommittee that the responsibility to check into the background of employees, including officers, rests with management and boards of directors, not the bank regulatory agencies. Does OCC conduct a name check (e.g., of its ECIS data bank) and provide information on an individual at the <u>request</u> of a financial institution hiring such a person, to determine the existence of prior civil enforcement orders, significant criminal referrals, or any other information maintained by the agency? Does it depend on particular circumstances, and if so, what are they? If not, why not?

5. c. (Answer). The OCC does not check an individual in ECIS at the <u>request</u> of or on behalf of a financial institution. The circumstances under which an individual's name will be cleared through ECIS were fully described in our response dated November 6, 1987. The Privacy Act exception which the OCC has received in order to maintain ECIS does not allow the system to be used as a "clearinghouse" by the banking industry prior to hiring a new banker. Finally, because ECIS contains significant material which is of a confidential nature, as well as material which suggests wrongdoing but does not conclusively establish it — (such as criminal referrals), disclosure of such information could subject this agency to significant legal liability.

D. Interagency Coordination and Consultation Among and Between Bank Regulatory Agencies and Law Enforcement Agencies

1. (Question). (a) Do you have any views on improvements to the structure and operations of the Interagency Bank Fraud Working Group? (b) Do you have any recommendations on changes to the significant referral tracking system, so that major investigations of failed institutions, often begun without a criminal referral and therefore not tracked by the system, could be included in it in the future? To prevent repetition and save time, I would request that you not discuss the accomplishments of the interagency bank fraud working group, unless directly relevant in answering this question, as the witnesses from the Federal Reserve Board and the Criminal Division have been asked to provide this information.

1. a. (Answer). The OCC believes that the current structure of the BFWG is appropriate. Its membership currently includes those individuals most directly involved in the

civil and law enforcement process at their respective agencies. The OCC is more than satisfied with the current operations of the group. The operations of the BFWG are an example of how government can work best through coordination of our efforts. Regular monthly meetings (more frequent meetings when necessary) provide an excellent forum for discussion of common problems and solutions to those problems.

1. b. (Answer). The OCC believes that there is merit to including all significant cases in the significant referral tracking system regardless of whether the case resulted from an agency referral or otherwise. We have discussed with the BFWG and with the Department of Justice the need and benefit of expanding this system and for a fully operational FOIMS system. While OCC's ongoing supervisory responsibility ceases when a national bank fails, our enforcement authority continues, and the presence or status of any criminal investigation regarding individuals against whom we might proceed administratively could be highly relevant. Moreoever, OCC has notified all U.S. Attorneys that we would like to work with them at the time of sentencing in those cases involving bank insiders. If we knew about these cases earlier, we might be able to contribute to the sentencing process by suggesting incorporation of provisions relating to restitution, civil money penalties or removals from all banking institutions. Unfortunately, OCC's access to information from ongoing investigations continues to be limited by the grand jury secrecy provisions of Rule 6(e).

2. (Question). The subcommittee has uncovered problems due to a lack of coordination and communication between the Justice Department (including the FBI) and the bank regulatory agencies and fee counsel at local levels, with one notable exception, the Chicago area (and now perhaps California). At the subcommittee's June 13, 1987, hearing in Los Angeles, U.S. Attorney Bonner testified, "It would be helpful to have the FBI periodically meet with examiners to discuss the types of bank frauds prevalent in a given district. Many frauds follow certain patterns. Experienced FBI agents and examiners could exchange information which would assist examiners in identifying the 'badges' of fraud." (His office subsequently advised us that, as a consequence of our hearing, communications, training and coordination have improved significantly in Southern California.) Several other U.S. Attorneys surveyed by the subcommittee confirmed the lack of such coordination formed a Banking Regulators Forum, made up of representatives from federal and state banking agencies and also several law enforcement agencies, which meets every 6 to 8 weeks, and has been reportedly very successful in carrying out joint efforts and communicating instances of misconduct. Questions:

2. a. Does the OCC support the formal creation of such task forces or groups, particularly in those districts with large numbers of cases or where there have been problems in the past? If not, why not? If so, has the agency considered taking steps to work with other agencies, to create them? Which agency should serve as the lead agency in this effort or should it be a joint effort?

2. a. (Answer). The OCC fully supports the establishment of local groups to discuss ongoing law enforcment issues. This would be an appropriate next step to build on the points of contact now in place through the efforts of the BFWG.

From our outstanding experience with the BFWG, OCC believes that this type of group works. We fully endorse the concept and intend to explore how we could establish such groups on a local level.

As an example of how a joint approach at the local level can succeed, see the discussion of the First National Bank of Del City proceeding, described *supra*. The OCC believes that such combined efforts involving state and federal regulators, the U.S. Attorney, and other interested agencies are essential if we are to take full advantage of the working group approach.

2. b. Irrespective of the creating of such interagency groups, what steps is the OCC prepared to take to foster improved and systematic coordination and communication at the local level, particularly between the FBI/U.S. Attorneys' Offices and your agency's examination and supervision staff?

2. b. (Answer). The OCC believes it is currently taking significant action to foster improved communication at the local level.

We routinely encourage our District Counsel to establish and maintain contacts with the local FBI and U.S. Attorney's Offices in their Districts. In fact, the Law Department of the OCC has made such activity by each of its six District Counsel a specific performance element by which they are evaluated on a yearly basis. District Counsel have developed the practice of making periodic trips to the U.S. Attorney's Offices to maintain appropriate contacts and have even gone so far as to work with the U.S. Attorneys in the sentencing phase of criminal proceedings. As explained in our November 6 response, we believe that such cooperation could be further enhanced if the constraints of the Right to Financial Privacy Act and Rule 6(e) applicable to the sharing of information between the OCC and the Department of Justice were lessened

Further, the OCC has implemented training designed to sensitize our examiners to criminal issues and foster cooperation between those examiners and the local U.S. Attorneys. For example, the OCC has worked in cooperation with the BFWG and the Federal Financial Institutions

Examination Council (FFIEC) to convert OCC's previous in-house White Collar Crime Seminar to a training course open to all of the other regulators through the FFIEC. OCC continues to share significantly in the responsibility for instructing at this course. Further, the OCC actively participates in joint training sessions with the FBI in the area of white collar crime in financial institutions in various parts of the country. In April of this year, OCC hosted one of these regional seminars in Atlanta.

3 (Question). Based on all the bank regulatory agencies recent submissions to the subcommittee, it appears that lists of persons suspected of and financial institutions affected by alleged criminal misconduct (and the outcome of any investigations) are not systematically shared or received among all of the agencies. Since the FBI's FOIM System will not be operational for at least one year, what are your views on developing a policy whereby at least all significant referral information (names and institutions) would be automatically (a) shared by each agency with all other banking agencies and (b) entered into every agency's computer system, to track individuals who move among different kinds of financial institutions?

3. (a) and (b) Answer). As we have pointed out in our previous responses, OCC currently provides a periodic listing of the cases in our ECIS system to the other agencies and periodically receives this type of information back. Lists provided by the other agencies are maintained in hard copy in the Enforcement & Compliance Division and responsible supervisory offices have been notified that the E&C Division may be contacted at any time in order to check these lists for individual names. In addition, the Department of Justice Fraud Section maintains its listing of significant referrals. As of July 31, 1987, that listing contained 436 referrals involving 853 subjects. Entering and maintaining all such referrals on at least six different data bases would be an inappropriate duplication of effort.

OCC believes that the most logical approach to this problem is the creation of a centralized data base system such as FOIMS. Until such time as FOIMS is operational, we will continue to share and maintain the information in hard copy only.

E. Improvements in the Exchanges of Information Between the Bank Regulatory Agencies and Federal Law Enforcement Agencies

1. (Question). Mr. Jeffrey Jamar, chief of the FBI's white collar crime section, testified at the subcommittee's June 13th hearing as follows: "It is preferable for appropriate banking agencies to refer any criminal misconduct uncovered while examinations are still underway rather than waiting until the institution is actually closed (or afterwards). This facilitates the investigative process by allowing FBI agents to interview examiners and/or institution employees while they are still available and while the records are still accessible and available for review by both the examiner and the FBI agents . . . ." Several U.S. Attorneys have made similar recommendations, strongly urging that FBI agents be brought into the institution at the time of failure, if not before. Questions: Please respond to this recommendation. Should the bank regulatory agencies change their policies, so that FBI agents can be present prior to, at the time of, or immediately after an institution's closing, if abusive practices or criminal activities are suspected? Is the OCC prepared to take steps to seek a change in policy and procedures?

1. (Answer). By statute, OCC's examination authority is civil only and may only be exercised in pursuit of OCC's statutory responsibility to examine the affairs of national banks. Concomitantly, the authority of the Justice Department to investigate is limited to its statutory authority to investigate and prosecute criminal offenses. Neither can be used as a vehicle to gain access to information not otherwise within the proper jurisdiction of the agency involved. Therefore, unless there is reasonable basis to suspect criminal activity, it would be inappropriate for an FBI agent to take part in or be present in a national bank at or prior to its closing.

It has long been OCC's practice to alert appropriate law enforcement authorities whenever OCC suspects that a crime has been or is being committed in or involving a national bank. In fact, OCC has actively encouraged FBI or U.S. Attorney involvement at the time of a bank closing where fraud is suspected. Prior to the closing of Golden Pacific National Bank in 1985, OCC had numerous conversations with and urged the involvement of the FBI and the U.S. Attorney's Office when fraud was suspected. More recently, immediately preceding a closing in the same city, OCC again worked with the U.S. Attorney's Office to encourage immediate investigation and action.

OCC believes that absent a change in the statutory mandates of the agencies, no significant change in policy or procedure can be made. However, we continue to stress to our examiners the importance of making timely criminal referrals. In those cases where immediate involvement by law enforcement is appropriate, we will continue to act to secure that involvement — as we did in the above cases and in the First National Bank of Del City matter.

2. (Question). U.S. Attorneys, the Fraud Section, and the FBI have encountered problems interviewing examiners and work papers. In its 7/9/87 submission to the subcommittee, the Criminal Divisions states that, while it is often necessary for FBI agents and prosecutors to interview the agency examiners whose work product was crucial to relevant examination reports, "by that time examiners are examining a bank or thrift in yet another city. Therefore, it is not easy to bring the agents, the examiners and their

work product together." (One U.S. Attorney had to send an assistant to travel to other regions of the country because of this problem.) In his 6/13/87 testimony, FBI official Jamar stated: "Easier access to both examination reports and the examiner most knowledgeable in the area of the reports would be of great assistance, [particularly in cities] where neither the FDIC nor the FSLIC maintain offices." Part of the problem arises, because, as U.S. Attorney Robert Bonner testified (subcommittee's 6/13/87 hearing), banking agency examiners do not follow-up on referrals which they do make and do not provide copies of key documents and interview memoranda of key witnesses at an early stage, preferably close to the time of the examination. Questions: How can this problem be resolved? What steps is the OCC prepared to take to overcome the problems cited?

2. (Answer). It has always been OCC policy to cooperate to the maximum extent possible when making or following up on criminal referrals. Subject to the restraints of the Right to Financial Privacy Act, we routinely make our examiners and attorneys available to meet with law enforcement authorities at the time of or shortly after a referral has been made. Moreover, our criminal referral process requires that the examiner assemble and retain all relevant documentation at the time of the referral so that it is available to provide as soon as an appropriate subpoena is received. Of course, as we have suggested, if the Right to Financial Privacy Act permitted the examiner to supply all relevant documents at the time of the referral, it would be possible to entirely avoid this period of delay.

Inevitably, there will be some logistical problems encountered in the process, particularly in cases where the bank has been closed. These can be overcome by good communications. As detailed in our response to question D.2., OCC has worked hard to improve the coordination and communication in this area over the last few years. We have established a solid network of contacts, simplified our procedures for providing information and access to examiners and actively worked with U.S. Attorneys' Offices to support their prosecutorial efforts.

3. (Question). (a) Please discuss any recent typical problems which the OCC has had with both the Right to Financial Privacy Act. In responding, briefly discuss recent communications between national bank counsel and the OCC concerning problems with making complete criminal referrals, while adhering to the RFPA, and indicate the outcome of such communications. (You may reference the situation in the OCC's 11/6/87 response, indicating the outcome and whether this is typical of the problems brought to the OCC's attention.) (b) What specific changes do you recommend in the Act? (c) Over the years this subcommittee has heard (and been sympathetic to) complaints about the RFPA from the bank regulatory agencies and the Justice Department, which have urged the Congress to change the statute. What specific efforts has OCC made, to attempt to convince the appropriate congressional committees of the need to do so?

3. a. (Answer). As indicated in OCC's response of November 6, 1987, a large multinational bank raised questions as to whether the bank's compliance with the reporting requirements contained on OCC's criminal referral form would violate the Right to Financial Privacy Act. The bank also raised questions regarding the circumstances under which a criminal referral would be required under the Bank Secrecy Act. Robert B. Serino, Deputy Chief Counsel (Operations), advised the bank that it was OCC's position that the criminal referral reporting requirement would arguably provide the bank with the defense that it was responding to a mandatory reporting requirement of a government agency and therefore subject to the exemption to the RFPA provided in 12 U.S.C. 3413(d). However, the separate and distinct provisions of 12 U.S.C. 3403(c), as recently amended, appear to limit the amount of information that may be supplied in a referral. Since this is not a settled issue, Mr. Serino could offer no assurance that more complete referrals would not expose the bank to a possible lawsuit or that the bank would prevail in any such suit.

The scope and reach of the RFPA as it relates to the criminal referral reporting continues to pose these kinds of questions for any financial institution that reports a suspected criminal offense. It also continues to raise questions as to how much information they can include in such referrals. These restraints, either actual or perceived, unfortunately limit the free flow of information to support a referral.

3. b. (Answer). One of the very first efforts of the BFWG was to propose appropriate amendments to the RFPA. Based on this proposal, in 1986, the Justice Department, on behalf of the administration, proposed a number of specific changes to the RFPA which were incorporated into H.R. 2785, a bill to combat money laundering. The same provisions were incorporated into H.R. 2786 and S 1335 and are included in the interagency enforcement package. The proposed amendments would have, inter alia: (1) exempted reporting of criminal acts from the requirements of the RFPA, (2) permitted the free exchange of relevant information between agencies outside of the RFPA, (3) established a "good faith" defense in civil actions for individuals reporting crimes, and (4) preempted state law in the area. The Administration is reexamining these proposals and may resubmit them in the not-far-distant future.

3. c. (Answer). Since the passage of the Right to Financial Privacy Act in 1978 the OCC has expressed to various Congressional Committees our serious concerns with the restraints imposed by the Act. To date, these concerns remain

largely unaddressed. The changes previously proposed, if adopted, would greatly enhance the cooperative efforts between law enforcement, the banks and regulatory agencies.

4. (Question). Other than amending Rule 6(e), what changes, if any, would you recommend to improve the exchange of information from federal law enforcement to the bank regulatory agencies?

4. (Answer). OCC believes that appropriate changes to Rule 6(e) would greatly improve the ability of law enforcement authorities to pass on information which the bank regulatory agencies should have in order to carry out their supervisory responsibilities. At present, because of the Rule 6(e) limits, OCC only learns of an indictment involving a banker after it has been entered.

OCC also favors any other changes which would increase the frequency and quantity of feedback on the status of open cases directly from the U.S. Attorney's office. At present, all declinations are routed back to Department of Justice Headquarters, then to the agency headquarters before they are forwarded back to the appropriate field offices. OCC would favor a much more direct system of feedback at the local level.

F. Sufficiency and Allocation of FBI and Federal Prosecutorial Resources and Evaluation of Prosecutorial Declinations of Significant Referrals

1. (Question). Please identify those FBI divisions and U.S. Attorneys' Offices where long delays have occurred in the investigation or prosecution of a particular case or cases involving national banks, and indicate whether a lack of resources was the principal cause. (b) Describe the impacts caused by these delays, giving examples. (c) Please describe any efforts taken to remedy these delays, including meetings at the local level or at headquarters, and indicate the outcome. (In response to (a) and (b), feel free to present in your oral statement information from the OCC's 11/6/87 submission.)

1. (a) and (b) (Answer). The OCC's June 15, 1987 response to question B.2. stated that "[w]hile the OCC is generally pleased with DOJ's commitment from the top, the OCC has experienced the frustration presented by the apparent lack of sufficient prosecutorial resources in certain jurisdictions to handle meritorious bank fraud cases." The OCC specifically cited districts in Texas, Oklahoma and Los Angeles as those areas where this lack of prosecutorial resources appears most severe.

The U.S. Attorney's Offices for the Central District of California (Los Angeles) and the Western District of Oklahoma (Oklahoma City) appear to have an acute shortage of assistant U.S. attorneys with experience in bank fraud matters. In addition, the Southern District of Florida, Eastern District of New York, Southern District of New York and District of New Jersey, appear to face an overall shortage of personnel to routinely track the status of bank fraud cases for the OCC.

An example of the impact of these resource shortages follows. On August 27, 1982, Western National Bank in Santa Ana, California was declared insolvent by the OCC. Prior to the closing of Western National, the OCC conducted an extensive investigation of insider transactions at the bank. The OCC also pursued a series of administrative actions and developed a substantial record of information on the insider abuses. It was not until September 9, 1987, however, that Western National's former chairman and majority shareholder, Craig Caldwell, was indicted for his misapplication of Western National Bank funds for his personal use and his falsification of loan applications and bank records. The indictments were obtained based upon alleged criminal violations of 18 U.S.C. §§ 656, 1005 and 1014, which occurred in 1981 and 1982. A waiver of the 5-year statute of limitations had to be obtained to prosecute the case. The former president of Western National Bank, John Willett, was not convicted until 1986, 4 years after the bank failed, of falsification of loan documents and bank records.

While it is apparent that the U.S. Attorney for the Central District of California is anxious to prosecute bank fraud cases, due to the resource limitations faced by that office, it appears to be an unfortunate reality that not every bank fraud case can be prosecuted expeditiously. Moreoever, again due to resource constraints, large dollar cases are frequently prosecuted ahead of small dollar cases. In major urban areas such as Los Angeles, white collar crime cases such as the Caldwell matter, which involve less than $1 million in bank funds, generally will not be prosecuted as quickly as cases involving violent crimes or multi-million dollar losses.

Another U.S. Attorney's office facing a chronic resource problem is the Western District of Oklahoma. Due to the weak economy in that area and the failure of dozens of state and national banks over the past three years, the U.S. Attorney's Office is facing a surge in bank fraud and insider abuse cases. Many of these cases stem from desperate attempts by bank owners to protect their financial investment in local banks.

The loan scheme referred to in the OCC's response to question A. 4. above, details a recent example of a major scheme to defraud numerous banks in the Oklahoma City area. In order to obtain criminal convictions in complex bank fraud cases such as the loan scheme described, the FBI and U.S. Attorney's offices must first devote sizeable resources towards developing evidence and witnesses to prove the case. In bank fraud cases in particular,

due to the complex financial transactions that are frequently involved, experienced FBI agents and assistant U.S. Attorneys are invaluable in developing and proving up a case. Unfortunately, these experienced individuals are in short supply and in districts such as the Western District of Oklahoma are stretched thin. OCC can identify with this type of problem and is certainly sympathetic with problems created by losing experienced personnel.

2. (Question). U.S. Attorneys' Offices have declined 10 referrals designated as significant by the OCC (attached are summaries provided by the Criminal Division). (a) In each case, was the OCC satisfied with the prosecutorial decision? If not, identify the case (by summary sheet) and describe the efforts made to have the matter reconsidered. (b) Did the OCC take any civil enforcement actions against any of the individuals against whom a prosecution was declined? Reference each summary page and indicate any civil enforcement action taken.

2. a. (Answer). In each of the ten cases referenced, the OCC was satisfied with the prosecutorial discretion exercised by the U.S. Attorney's Office.

2. b. (Answer). In cases number 8600590, 8600599 and 8702208, the individuals against whom prosecution was declined were not officers, directors, employees or persons participating in the affairs of the institution. Therefore, the OCC has no jurisdiction to take any civil enforcement action. In the cases numbers 8600762, 8702800 and 8703112, the OCC also took no civil enforcement action against the individuals involved.

In case number 8700815, no civil enforcement action was taken against the individual against whom the prosecution was declined because the individual was merely a borrower at the bank and the OCC therefore lacked jurisdiction. However, given this individual's successful effort of selling cattle out of trust, the OCC addressed the bank's deficiency in this area, as well as others, in a cease and desist order which was consented to by the bank's full board of directors.

In cases numbers 8600596, 8600597, and 8600598, the OCC initiated removal proceedings against the Chairman of the Board and primary owner of these three institutions. This individual subsequently entered into a consent order with the OCC which removed him from participation in the conduct of the affairs of all federally insured financial institutions. Civil money penalties are still being considered against this individual and members of his family who served as directors of these three banks. Proceedings for the issuance of cease and desist orders were also initiated against all three banks. These proposed cease and desist orders addressed, among other items, the same type of deficiencies that led to the criminal referrals and the removal. The directors of bank number 8600596 chose to stipulate to the issuance of a cease and desist order. Because the directors of the other two institutions refused to stipulate to the issuance of an order, administrative hearings were held to determine whether orders should issue. Bank number 8600598 was declared insolvent by the OCC before the administrative proceedings could be concluded. However, the administrative proceeding against bank number 8600597 was concluded and a cease and desist order was issued. The bank chose not to appeal the order, and it thereby became final.

G. Other Issues

The joint agency legislative proposal for improving agency enforcement powers has been approved by the Federal Deposit Insurance Corporation, the Federal Reserve Board, and the Federal Home Loan Bank Board. It is expected to be formally considered by the National Credit Union Administration very shortly. The proposal has been approved at the Office of the Comptroller of the Currency and will soon be sent to the Treasury Department and the Office of Management and Budget for clearance. The agencies have spent considerable time developing this joint product, which reflects a common approach to civil enforcement problems.

In addition to these legislative proposals, OCC has long favored other changes to the law which would enhance our ability to carry out our supervisory and enforcement responsibilities. One of the most important includes changes which would provide additional protection against lawsuits filed against federal employees in their personal capacity for alleged damages growing out of the proper exercise of their responsibilities. As of this submission, an OCC employee and former employee in the Southwest have been named as defendants in their personal capacity in a suit brought by an individual who was determined to be unqualified as a proposed bank president of a bank in organization. OCC's motion to dismiss that suit has been denied and the case is proceeding into the discovery stage. This is not the first time that OCC employees acting in good faith to carry out their responsibilities have been sued in their individual capacities.

The prospect of being sued for doing your job properly is a significant disincentive. OCC continues to support appropriate changes which will address this problem

Statement of Robert L. Clarke, Comptroller of the Currency, before the Senate Committee on Banking, Housing, and Urban Affairs, Washington, D.C., December 3, 1987

Mr. Chairman, Senator Garn, and members of the Committee, I am pleased to have this opportunity to address reform of the Glass-Steagall Act.

Fortunately, a broadly based consensus on the need for some kind of reform is developing. I congratulate you, Mr. Chairman, and Senator Garn for leading the way in focusing badly needed attention on Glass-Steagall reform. Your proposal, S. 1886, provides the necessary framework for moving reform to center stage. It would permit needed competition between commercial and investment banks with administrative simplicity and directness, requiring minimal changes in the supervisory structure governing financial institutions.

Significant contributions to the building of a consensus have also come from Senators D'Amato, Cranston, Wirth, and Graham, other members of Congress and from the Administration, other financial regulators, the academic community, and the financial-services industry. In light of those endeavors, these hearings will expand the basis upon which meaningful reform must rest.

As we undertake this effort, it is important that we recognize areas of broad agreement in the three bills introduced by members of this Committee and a proposal I will outline today. We all agree that the Glass-Steagall Act is misdirected in its efforts to protect the safety and soundness of our financial institutions. We agree that reform must be coupled with insulating commercial banks from the risks of new activities, to properly restrict the availability of the safety net provided by federally insured deposits. And most importantly, we agree that reform will yield a more competitive financial services industry, benefiting all consumers of financial services. Despite any difference in approach that those of us testifying before you may have, we must not lose sight of the real issue here — banks must be allowed greater freedom to compete.

We support S. 1886, but believe that it can be enhanced in some respects. This morning, I will elaborate on some of those enhancements, outlining a model for a regulatory structure that I think should replace that created by the Glass-Steagall Act.

This proposal, which is a variation on the basic structure that you and others have proposed, is based on the principle of corporate separateness and is directed toward preserving the safety and soundness of insured depository institutions, ensuring that conflicts of interest are not resolved to the detriment of the public, and maintaining a fully competitive financial services marketplace. This alternative also permits banks to choose from among several forms of corporate separateness and relies, with a few exceptions, on existing safeguards, rather than on extensive new layers of statutory protections. Reliance on existing safeguards reflects the fact that Congress has already fashioned laws, premised on corporate separateness, that address most of those issues of concern to us all. A review of those safeguards is contained in an appendix to this statement.

Competitive Realities

The need for reform rests on one basic fact: the cost of the Glass-Steagall Act — a severe reduction in competition in financial markets — is not offset by any meaningful public benefits. History tells us that the Glass-Steagall Act was designed to ensure the availability of our deposits in banks, at the cost of limiting direct competition between commercial and investment banks. However, the protection of deposits has been secured by other means — primarily federal deposit insurance. There is some irony in the fact that the law that gave us the Glass-Steagall Act — the Banking Act of 1933 — also made it redundant by creating the FDIC.

Because there have been substantial economic, regulatory, and technological changes since the passage of the Glass-Steagall Act, its limitations on competition have produced significant inequities. Investment banks have been relatively free to respond to market changes by offering a host of new products, without giving up the old ones. Commercial banks have not been so fortunate. As a result, investment banks are now able to offer nearly a full line of commercial banking products, but commercial banks may not offer a full range of investment banking products. This has had a deleterious effect on the efficient provision of financial services to the American public.

Securities Firms Entering Retail Banking Markets

Securities firms are providing the equivalent of many consumer banking services. First, they offer interest-bearing checking accounts to their customers in the form of money-market mutual funds (MMFs). While MMFs are technically not deposit accounts, their shares can be redeemed by writing checks.

Second, securities firms have successfully marketed consolidated packages of financial services, combining MMFs with access to stockbrokers, securities margin accounts, and debit cards. These products include Merrill Lynch's Cash Management Account (CMA), the Shearson/American Express Financial Management Account, the Prudential Bache Command Account, and Dean Witter Reynolds'

Active Asset Account. All were originally designed to attract the business of higher-income customers, with initial investment requirements of $20,000 or $25,000.

The success of those products can be seen in two developments. First, the securities firms increased the quality of the products by adding new features, such as access to stockbrokers, securities margin accounts, debit cards, pre-authorized transfers to and from bank accounts, flexible premium life insurance, and pre-authorized borrowing against the value of eligible securities. Second, the reach of the products has expanded to less affluent customers. E.F. Hutton's Asset Managment Account, while offering fewer features than the other consolidated packages, has an initial investment requirement of $10,000. Merrill Lynch responded to that competition by offering a simpler version of its CMA with a $5,000 initial investment requirement.

Other competition from financial conglomerates in retail banking markets comes from their ownership of thrift institutions and nonbank banks. That competition is made all the more vigorous when those depository institutions offer credit card services. For example, United Services Automobile Association offers MasterCard through its subsidiary USAA Federal Savings Bank, Dreyfus offers MasterCard through Dreyfus Consumer Bank, Prudential offers MasterCard through Prudential Bank and Trust, John Hancock offers Visa through First Signature Bank and Trust, and Fidelity Investments offers MasterCard through Fidelity Bank and Trust.

Securities Firms Entering Wholesale Banking Markets

The Glass-Steagall Act has not prevented investment bankers from entering another traditional domain of commercial banks — the provision of credit to the corporate sector. Evidence of this competition comes from many sources. We are all familiar with the explosive growth of the commercial paper market that is dominated by investment banks. Many may not be familiar with other examples. For the years 1984 to 1987, Salomon Bros. estimates that bank loans as a percent of all new corporate debt issued will have fallen from 35 percent to 15 percent. The Loan Pricing Corporation, a bank consulting firm, recently quoted the intent of an investment banker to visit by 1993 nearly every company with sales over $25 million to convince them to give up bank loans in favor of marketable debt. Those companies currently borrow an estimated $400 billion from commercial banks.

In essence, direct access to capital markets is another version of disintermediation, which can also be seen in the growing trend of securitization. In search of more income and liquidity, major institutional lenders, including some commercial banks, have transformed loans into securities. They pool large blocks of their own loans, issue securities backed by those loans, and distribute them to a wide range of investors. Largely because of litigation contending that the Glass-Steagall Act prohibits banks from playing a role in the distribution of those securities, that field and its profits have been left largely to investment banks. It has been reported that new issues of securities backed by auto loans and credit-card receivables have reached an annual rate of $10 billion. There were virtually no such issues as recently as 1985.

Additional evidence of direct competition in wholesale lending markets can be found elsewhere. Securities firms are increasingly active in providing bridge loans to underwriting clients — the equivalent of short-term commercial bank financing. Large finance companies such as General Electric Credit Corporation are showing new aggressiveness in promoting large-denomination loans to businesses. Insurance companies and investment banks are reported to be offering long-term loans to businesses in competition with commercial banks. Companies active in this market include Connecticut General, Equitable, John Hancock, Massachusetts Mutual, Metropolitan Life, and Prudential.

Bankers Not Allowed to Meet the Competition

This explosion of new products and increased competition is a welcome development, but the ability of local banks to respond should not be limited as it is by the Glass-Steagall Act. A recent *Wall Street Journal* article (October 5, 1987) pointed out that community bankers are losing deposits to nationwide investment banks marketing products, such as money market mutual funds, and other investments in many of the smaller communities of America. Clearly, consumers benefit when those products are available. But equally clearly, the entire local community would benefit if those products were also available from local banks. One banker interviewed for the article noted that when banks lose funds, lending must decline and there is not much of a chance those denied credit could go elsewhere; investment banks, he noted, do not "finance gas stations and clothing stores."

That observation by a community banker underscores a vital point. Consumers value the convenience of being able to purchase related products at a single outlet. When banks lose customers to nonbank firms in one product line, they are likely to lose them in others. The continued presence of the bank as an effective force in its community may well depend on the ability to serve the many financial needs of individual consumers. To do that, commercial banks must be able to offer the products that are available from their competition.

Although banks have made significant efforts to offer a broader range of products and services, these have more often than not been challenged on Glass-Steagall grounds

For example, banks' efforts to offer commercial paper services to their prime corporate customers were vindicated only after years of expensive, disruptive litigation.

Similarly, several commercial banks have sought to offer to their IRA customers collective trust vehicles in a form that is permissible under existing employee benefit legislation and that builds upon the range of permissible fiduciary services that banks have, for generations, offered to their customers. Predictably, the mutual fund industry sought through court action to limit the availability of these services. Again, the commercial banking industry prevailed, but only after extended litigation.

The securities industry continues its challenges. As banks have recently sought to pool and sell interests in mortgage and consumer loans — sales of their own assets which banks have always been permitted to do — the securities industry's trade associations have been quick to take up the offensive in the courts. Similarly, bank efforts to offer new deposit instruments that link the returns to depositors to financial market indices have led to new challenges by the mutual fund industry.

The one area the securities industry has not vigorously challenged is the "plain vanilla" sale of bank loans, in whole or in part. Loan sales are confined primarily to other commercial banks and tend to be available only in relatively large denominations, and acquiring banks must receive and analyze extensive documentation associated with each sale. These features limit the usefulness of loan sales as a means of diversification, particularly in the case of attempts by community banks to package and sell loans they originate.

A well-developed secondary market in loan sales is needed, however, and would improve the safety and soundness of the banking system. It would make it easier for banks, particularly small banks, to diversify their loan portfolios. And it would add liquidity to the commercial lending market, just as mortgage-backed securities enhanced the liquidity of the housing-finance market.

Securing the Benefits of Full Competition

Clearly, there is substantial competitive inequality between commercial banks and other providers of financial services. Just as clearly, there is one principal reason for removing those barriers, for reforming the Glass-Steagall Act: consumers will benefit. As former Comptroller of the Currency William Camp observed nearly two decades ago, "... the public interest would best be served by insuring the fullest use of the great potential of the banking system to serve consumer needs — within the limitations of bank solvency and liquidity. ... In financial, as in other markets, the presumption lies in favor of maximizing competition, and banks should not be excluded from any financial market which they may safely and prudently serve." (*A New Era for Banking*, remarks to the Texas Bankers Association, San Antonio, Texas, May 14, 1968.)

I have no doubt that the banking system would supply new competitive energy, if given the chance. Throughout their history, commercial banks have met many of the basic financial needs of the Amercian public and its private and public institutions in the largest metropolitan areas and in the smallest rural communities. If banks could not offer financial services in their own name, they often supplied them as agents for those who could. Banks are the financial institution of choice for the vast majority of consumers. Numbering in excess of 14,000, banks constitute an effective and efficient system for delivering the broadest possible range of financial services. We must allow that system to work.

The approach I would suggest to achieve this objective is a very simple one. It is based on two principles.

- First, it would let banks and other providers of financial services affiliate with one another in a manner of their own choosing. However, that affiliation would be subject to the numerous safeguards governing affiliate relationships which have been passed by Congress since Glass-Steagall, strengthened in some respects.

- Second, it would rely on functional regulation. For example, securities regulators would regulate the securities companies and banking supervisors would regulate the banking companies.

The enhanced competition resulting from these changes would have far-ranging benefits to consumers of financial services. First, it would strengthen the commercial banking system by increasing income-earning opportunities, thereby reducing vulnerability to economic declines in particular geographic markets. We all benefit when the banking system is strong.

Second, we can expect improvements in the selection, availability, and quality of financial products. That expectation is based on statistical analyses and anecdotal evidence. Several studies of the insurance industry have shown that where competition has flourished, policy premiums have tended to decline and insurance options to increase. Analyses of securities underwriting syndicates have shown that permitting affiliates of commercial banks to underwrite municipal revenue bonds would likely result in significant savings to local governments. Articles and advertisements in our daily newspapers remind us that in the highly competitive retail market for computer products and in the newly competitive market for long-distance telephone service, product innovation has been as significant as has the decline in consumer prices.

By permitting needed competition between commercial and investment banks, S. 1886 takes some important first steps toward achieving those benefits. That competition would be further stimulated, and banks could take significant strides toward diversifying their portfolios, if reform legislation offered banking organizations unrestricted authority to underwrite asset-backed securities. Such underwriting poses no threat to bank safety and soundness, and it would be subject to the full range of the requirements of federal and state securities laws.

The Benefits to Community Banks

There is recognition among many who speak on their behalf that small banks need expanded powers. Representatives of community-bank trade associations and executives of many small banks are on record as supporting bank participation in underwriting commercial paper, municipal revenue bonds, mortgage-backed securities, and mutual funds. Such support is not based on the belief that all community banks would form and lead underwriting syndicates in competition with large investment banks. Rather, it is based on the belief that many community banks would participate selectively and profitably in many parts of the securities business.

For example, community banks could be members of syndicates underwriting new issues by large regional and perhaps nationwide companies, led by larger firms such as their own correspondent banks. They could form joint ventures, possibly using bankers banks, to operate and manage mutual funds. Many banks today perform limited roles in the mutual funds operated by others; the profits from those endeavors are similarly limited.

Many community banks will find it cost-effective to participate in cooperative arrangements to underwrite security interests in assets they originate, local municipal revenue bonds, and securities issued by local firms. Community banks are generally retail banks having strong relationships with community businesses and extensive knowledge of their working- and long-term capital needs. Participating in the underwriting of corporate securities would permit community banks to meet the entire spectrum of financial needs of those businesses. Because of their knowledge of the local economy, its households and business firms, community banks would be in as good a position as any other firm to market all such securities successfully.

Finally, I want to comment briefly on the fear, which has been expressed by some representatives of community banks, that permitting banks and securities firms to affiliate will further erode the competitive position of community banks in their own local markets.

It is important to keep clearly in mind that the competitive position of community banks is already being eroded today by securities firms. The small-town banker to whom I referred earlier has provided significant evidence of this effort. Permitting the affiliation of banks and securities firms, not preventing it, is the best cure for that problem.

Community banks are in as good a position as other banks to benefit from such affiliation. In their own communities they can easily take full advantage of their well-deserved reputations for providing personal service and convenience in the sale of financial services. But all the personal service and convenience in the world will not keep a customer if bank cannot offer the products that customers demand. Banks of all sizes must be given the opportunity to offer their customers the benefits of a more competitive marketplace.

New Regulations for the Financial-Services Marketplace

In recent months, a number of thoughtful people have given careful consideration to the question of what regulatory framework is needed for the financial-services marketplace. Importantly, the primary emphasis has been on broad questions, such as how to design a structure that takes advantage of the numerous protections that are in existing laws, rather than focusing on the more narrow issue of which activities banks and their affiliates may safely conduct. Both S. 1886 and S. 1891 are valuable contributions, for they would make significant use of existing protections.

Using the Principle of Corporate Separation

Despite their differences, virtually all proposals for financial reform have two things in common. First, they recognize that the key to a more competitive financial services industry is the removal of barriers to the kinds of businesses with which banks may affilaite. Second, affiliation would have as its cornerstone a form of separate incorporation that would serve to insulate the bank from the affiliate.

Separate incorporation contributes to protection of the deposit insurance fund by limiting, in a verifiable manner, bank exposure to financial losses. The protections are three-fold. First, as discussed more fully below, there are laws and regulations that constrain transactions between a bank and its affiliates, including ceilings on the amount of loans to single entities and aggregate affiliations. Second, the so-called "corporate veil" can help ensure that losses flowing from an equity investment in an affiliate are limited to the size of that investment. Third, the supervision of banks by the banking agencies, and the taking of vigorous enforcement action where necessary, promote bank safety and soundness and compliance with law.

The conduct of activities in product-specific firms also minimizes, if not eliminates, any ambiguity as to which

laws and regulations apply to a particular firm and which supervisor is responsible for interpreting and administering those laws and regulations.

Separate incorporation also lends itself to more accurate monitoring of how conflicts of interest are resolved because inter-firm recordkeeping requirements are usually more extensive than intra-firm requirements. By the same token, implementation of the antitrust laws is eased, because separate records ease the task of assessing market size and the relative strengths of market suppliers, two of several factors that are important in judging the extent to which anticompetitive practices are, or could be, present.

There are a number of forms of affiliation that involve separate incorporation, including affiliations through a holding company, by ownership in a venture that is owned by more than one firm, or by wholly owned subsidiaries of banks. All deserve consideration.

In fact, I see no reason to force any particular form of affiliation on the private sector. Just as banks have chosen to place some currently authorized activities in wholly owned subsidiaries or in holding company affiliates, they may similarly choose to conduct new activities in such types of subsidiaries or affiliates. They should continue to have the freedom to choose, and having chosen, their activities should be regulated and supervised in the same way and subject to exactly the same rules, regardless of where they are placed.

The proposal for structural reform that I favor would particularly enhance the ability of smaller banks to reap the benefits of product deregulation. Unlike other proposals that would require that securities activities be restricted to a subsidiary of a bank holding company, this proposal would simply require legal separation, not a particular form of affiliation. This leaves open the possibility that the bank could place the activities in a wholly owned subsidiary — a simpler and less expensive option than forming a new banking holding company.

I should point out that these subsidiaries would be distinct from "operating subsidiaries" that the OCC currently permits national banks to own, which are treated substantially as departments of the banks for federal law purposes. If Congress adopts the broad approach to Glass-Steagall reform that is contained in the bills introduced by members of this Committee, and permits banks to conduct new activities in bank-owned subsidiaries as well as in holding company affiliates, the bank subsidiaries should be treated as affiliates for federal law purposes. In discussing my proposal, I will refer to that class of subsidiaries as "insulated subsidiaries."

The insulated subsidiary option would benefit a substantial number of banks. Approximately one third (4,700) of all commercial banks today are not affiliated with holding companies. These banks are generally smaller community banks. The freedom to choose the most appropriate form of organization in the event of product deregulation, thus, would increase the number of options available to smaller institutions.

Because of the need to make new activities readily available to smaller institutions, I find it troubling that neither S. 1886 nor S. 1891 would permit commercial banks to enter new markets through the use of a subsidiary. Our principal objective in reforming the Glass-Steagall Act is to increase competition in the financial services marketplace. We will succeed in achieving that objective only to the extent that we offer new-powers opportunities to the largest possible number of commercial banks. The lower we can keep the cost of entering new markets, the larger will be the number of new entrants. A bank-subsidiary approach keeps the cost of market entry low.

I recognize that S. 1886 offers a simplified process for securing Federal Reserve Board approval of bank holding company applications, and I applaud that effort. That simplified process, however, is not so streamlined that it would reduce significantly incorporation, legal, and other organizational fees (such as those associated with proxy statements and securities registrations) that are an ordinary part of establishing bank holding companies. In addition, it would subject those banks to the substantial costs of compliance with the requirements of an additional regulator. A low-cost market-entry option is still needed.

Activities to be Placed Outside the Bank

Determining which activities should be permitted to be conducted in a bank and which should be required to be conducted in an affiliate is an important element of Glass-Steagall reform. Clearly, it is not necessary on safety and soundness grounds alone to put all new activities in separately incorporated firms. There is no evidence that securities activities in which banks now engage have materially jeopardized the safety and soundness of any institution. Certainly, those securities activities in which a commercial bank acts solely as broker, intermediary, or consultant with little, if any, of its own funds at risk could be conducted within the bank with little risk to the deposit insurance fund. Other new activities may pose risks that are similar to those banks face in currently permitted activities — risks with which bankers and their supervisors are familiar.

In addition to risk factors, however, there are issues of simplicity, and competitive and regulatory equity, that should be considered. There is a certain appeal, for example, to having all underwriting activities regulated by the SEC. Nonetheless, concern has been expressed that separation solely for the purpose of regulatory convenience

could result in the inappropriate application of safeguards and could dilute the benefits of financial reform.

A rational method for determining oversight responsibilities over the various activities will have to be devised in conjunction with settling the other substantive issues of structural reform.

Safeguards

The regulatory framework I envision differs from that proposed by some members of this Committee in the area of safeguards. We all agree that reducing the barriers that prevent commercial banks from competing in a larger number of financial markets should not be undertaken without appropriate safeguards. In a totally unregulated marketplace, such competition could easily raise questions about three major areas of concern — bank safety and soundness, conflicts of interest, and concentrations of economic power. Fortunately, we have a host of laws and regulations that, in my view, adequately address each of those areas.

By contrast, S. 1886 seems to reflect considerable doubt about the effectiveness of those safeguards and would impose many new restrictions on bank-affiliate relationships and prohibit certain mergers. I will address those topics in turn, keeping in mind two points. First, it is important to recognize that safeguards are intended to protect insured deposits from losses that affiliates may incur; management and shareholders, however, should not be insulated from the consequences of their decisions. Second, great care must be taken when adding to current safeguards lest we reduce substantially, if not eliminate, the economic incentives for the new affiliations.

Defining Appropriate Bank/Affiliate Relationships

Extensions of credit. S. 1886 would prohibit a commercial bank from:

- extending credit to, purchasing the assets of, or issuing guarantees or letters of credit for the benefit of its securities affiliate;
- extending credit to a mutual fund advised by its securities affiliate;
- extending credit to enhance the marketability of a securities issue that is underwritten or distributed by its securities affiliate; or
- extending credit to an issuer of securities that are underwritten by the bank affiliate to pay off the principal of a loan made by the bank to the issuer.

As a general matter, I am opposed to such blanket prohibitions without evidence of abuse. Moreover there may be situations in which the granting of the prohibited credit or purchase might be in the public interest. The bank may in fact be able to purchase securities from its affiliate on better terms than could be found elsewhere. A loan to an affiliate may be a less risky loan than one to a non-affiliated firm.

Nonetheless, there are opportunities for abuse, and Congress has already put in place a way to regulate bank/affiliate relationships — one that has stood the test of time and has recently been supplemented. I believe that this is a better way to regulate those relationships. Major safeguards dealing with bank affiliate relationships are to be found in sections 23A and 23B of the Federal Reserve Act. They limit financial transactions between a bank and its affiliates and otherwise require that major transactions be on an "arms-length" basis.

In general terms, limits on financial transactions are stipulated in section 23A. They require that commonplace transactions between a "member bank and an affiliate shall be on terms and conditions that are consistent with safe and sound banking practices." They are generally more restrictive than limitations on transactions with non-affiliated customers, such as limits on loans to an individual borrower.

Sharing of officers and directors. S. 1886 would also restrict the extent to which banks and their securities affiliates could share managerial resources. Only bank holding companies with assets of $500 million or less, or otherwise exempted by the Federal Reserve Board, could have interlocking officers and directors.

I was pleased to observe that the anti-interlock prohibitions were not all-embracing. Smaller banking organizations simply may not have available to them multiple management teams, not to mention the funds needed to support them.

The question of where to draw the line when defining "small" is difficult. Commercial banks have many fewer employees compared to other firms of the same asset size. The $500 million cutoff may not reach all banking organizations for which interlocking directorates are economically vital.

There is an alternative way to handle conflict-of-interest problems. Those who face conflicts of interest should be required to disclose such conflicts, and they should be prohibited from using inside information for personal gain. Severe penalties should be imposed for failures to make the proper disclosures or to honor the prohibitions.

Preempting State Law. S. 1886 would also deny the states the authority to allow state nonmember banks to affiliate

with securities firms outside the holding company structure. Such limitations, in my opinion, would unnecessarily deprive us of the benefits and the experience accumulated under the dual banking structure. I note that the recently passed Competitive Equality Banking Act of 1987 recognized — albeit to a limited extent — the benefit of state regulation by allowing qualified savings banks to engage in activities that the state in which the savings bank is located permits it to engage.

It is important to note that affiliations with securities firms permitted by state law are conducted through bank subsidiaries and are subject to supervision and regulation by the FDIC and the SEC under a regulatory framework much like the one I am suggesting today. There is no evidence that those affiliations have jeopardized the safety and soundness of banks.

Business Combinations and Anticompetitive Practices

S. 1886 would prohibit mergers between bank holding companies (or banks) with assets of at least $30 billion and investment banking companies with assets of at least $15 billion, in an attempt to avoid undue concentrations of economic power. Any concentrations of financial resources in a manner that would shut off the availability of credit to certain sectors of the economy should be of concern to us all. However, the imposition of an arbitrary prohibition of certain mergers is not, in my judgment, an appropriate response to that concern.

The best protection against the danger that a few firms could control a market is the presence of healthy competitors. Certainly, there is vigorous competition in the markets for the products and services that commercial banks offer. That competition is provided by the 14,000 commercial banks, 3,300 thrift institutions, 15,000 federally insured credit unions, and the myriad of securities firms, insurance companies, retailers, and other companies that offer products similar to those offered by commercial banks. It seems to me that the limitation proposed in S. 1886 is not necessary to maintain competition in these hearings — the elimination of antiquated statutory restrictions on the ability of financial services providers to compete on equal terms — Glass Steagall reform would be pro-competitive.

The market for investment banking services is far more concentrated than the commercial banking market. As you noted when you introduced S. 1886, Mr. Chairman, a number of the markets for investment banking services are dominated by a relatively small number of firms. As testimony before this Committee has shown for many years, traditional bank customers are turning increasingly to the securities markets. If any segment of the financial services industry merits concern regarding concentration, it is the investment banking market.

Moreoever, the arbitrary size limitations that would be imposed by S. 1886 could have adverse consequences. The prohibition could unnecessarily impede the withdrawal of a large firm from a particular portion of the market through the sale of assets to the only firms not already in the investment banking business that could afford to buy them. Similarly, it could impede the orderly liquidation of a large firm that is insolvent or otherwise competitively moribund.

Arbitrary dollar limits on mergers should be abandoned in favor of vigorous enforcement of existing antitrust laws. Those laws and their enforcement will be adequate to protect against unlawful anticompetitive or collusive practices. They also provide the flexibility needed to adapt to continually changing market conditions.

Additional Safeguards

As I have indicated, I am wary of imposing unnecessary restrictions on the ability of financial services providers to compete. A safe, yet competitive, marketplace can be achieved through the use of the existing network of safeguards, coupled with four additional measures. First, financial reform legislation that provides for the conduct of certain activities through insulated subsidiaries of banks should apply the restrictions on transactions with affiliates contained in sections 23A and 23B of the Federal Reserve Act to transactions between a commercial bank and its insulated subsidiaries.

Second, bank supervisors could do much to ensure that bank capital is insulated fully from the potential risks of affiliation by deducting a bank's investment in insulated affiliates from the bank's capital when assessing the adequacy of bank capital. As long as the corporate veil remains intact, therefore, bank investments in insulated affiliates could not threaten the adequacy of bank capital. Thus, there would be no need to limit the size of such investments.

Third, in order to strengthen the corporate veil, we should consider the benefits of amending the national banking laws to prohibit national banks from being held liable for the obligations of their insulated affiliates, unless specifically assumed by a prior contractual arrangement or in egregious cases such as gross negligence or willful misconduct. Such legislation could promote bank safety and soundness as well as competitive equity by making it clear to the public that products offered by affiliates of banks are in no way protected by the safety net that supports the bank itself.

Finally, it is clear to all of us that the law must be strictly enforced if the safeguards are to work. Supervisors and regulators will have to be especially vigilant. Strong enforcement action must be taken when the occasion warrants, and we must continue to seek expanded enforce-

ment authority as needed. A proposal that would strengthen the hand of the supervisory agencies in dealing with those who abuse financial institutions, which was developed through the joint efforts of the federal bank and thrift supervisors, was recently transmitted to the Congress. I heartily endorse those measures. Other enhancements, such as the suggestion in S. 1891 that civil money penalties be increased to as much as $10,000 per day (a sizeable increase over the current general limit of $1,000 per day) are also worthy of consideration.

Conclusion

Organizations wishing to combine banking with other businesses should be permitted to choose from among a variety of business structures that effectively address the related concerns. A bank-subsidiary structure is but one example. It could be as safe and effective a framework for financial reform as any other. Banks could be given new sources of financial strength, without creating uncontrollable risks for the deposit insurance fund or consumers

The means for controlling those risks are at hand and do not require extensive and radical additions or modification. Were we to impose substantial constraints on firms that offer a full range of financial services, we may inadvertently choke off the very benefits that reform of the Glass-Steagall Act can give us — a truly competitive financial-services marketplace.

As I indicated at the opening of my statement, Mr. Chairman, I support the goals that you seek to achieve in S. 1886. I hope that my suggestions today will make a contribution to the reform effort that you have started, and I look forward to working with you and the other members of the Committee in bringing to fruition the competitive opportunities for banks that have been needed for so long.

Remarks by Robert L. Clarke, Comptroller of the Currency, before the Consumer Federation of America, Washington, D.C., December 11, 1987

Whenever I speak to consumer organizations, I try to put myself in the right frame of mind by recalling two incidents that occurred in the small town in New Mexico where I grew up.

When I was about 16, a high school friend of mine had a part-time job in one of the town's grocery stores. One Saturday night he was rushing to finish so he could meet his date after the store closed when the owner gave him some bad news.

The owner told him he'd have to finish up by himself, lock-up, and then he'd be free to leave. As luck would have it, just about the time he finished, a lady who lived down the street came into the store and asked for a 4-pound chicken. On checking the cooler, my friend found that there was only one chicken left, and brought it out for the lady to inspect.

She said that the chicken looked a little small and asked for a larger one. My buddy went into the back, ran some warm water over the chicken to loosen it up and fill it out. He then fluffed it up and took it back out to the lady. And she said: "Oh, that's better, but it's still not large enough — I guess I'll just have to take them both."

It took my friend a while to find another part-time job. Finally, he landed one with the town's optical-goods store. He told me that, on his first day at work, the proprietor gave him these instructions:

"Now son," the proprietor said, "we want to get a fair and honest price out of every customer. After the customer has chosen frames the customer will ask you 'What's the charge?' You say, 'The charge is twenty-five dollars.' Then you pause. If the customer doesn't flinch, you say 'That's for the frames; the lenses will be another twenty-five dollars.' Then you pause and again you wait. If the customer doesn't flinch, you say, 'EACH.'" Having bought glasses at the store myself, I didn't find my friend's story so funny.

Events such as these, though events of wider significance, led to the creation of the Consumer Federation and its efforts to promote the rights of consumers. But it is a tribute to the CFA, and its members, that this organization isn't satisfied with just performing its watchdog role. In addition to finding and correcting wrongs, you also, through the studies you sponsor and publish, work toward creating more productive systems to deliver the goods and services consumers need and want.

At the Office of the Comptroller of the Currency, we also view our responsibility toward the consumer in the same way. We are charged by Congress with assuring that national banks comply with federal consumer protection laws, our policing role. But we also go beyond that role to promote a more efficient, a more productive, financial system where the consumer will be the ultimate beneficiary

I was asked to speak today on financial services restructuring and its potential benefits for consumers. Before

doing so I would like to touch briefly on the OCC's role in promoting bank compliance with the various laws and regulations relating to consumer issues.

As many of you know, at the OCC we have recently altered our system of monitoring and supervising the safety and soundness of national banks in particular and the national banking system in general.

In a nutshell, our current approach is to continue to conduct on-site examinations, but to rely more on off-site surveillance to monitor the condition of banks. Increasingly, we are also using our judgment to a greater degree to focus on those institutions where weakness in the bank would more likely bubble over to weaken the banking system.

We are in the process of adapting this approach to our compliance responsibilities, too, to achieve parallel ends: to be more effective and more efficient.

Our revised compliance approach will continue to focus on both the letter and the intent of laws governing such areas as Truth-in-Lending, Equal Credit Opportunity, Community Reinvestment and Fair Housing Lending, just to name a few.

How does this revised approach work?

We are placing greater emphasis on assessing the banks' own systems to ensure compliance. Having these systems in place and operating in each bank will result in a much higher degree of compliance throughout the system all day, every day. And we are using our judgment more in targeting those institutions where noncompliance would have the greatest impact on bank customers and their communities.

Several weeks ago, several members of the OCC staff met with representatives of major national community and consumer organizations, including representatives of CFA, for a half-day briefing on our revised compliance program. I won't go over all the details discussed then. However, I would like to stress that we have two goals for our compliance program: we want to be fair to bank customers and we want to be thorough in our supervision of institutions.

Indeed, on the last point, we will conduct thorough compliance examinations of all multinational and regional bank holding companies with national banks once every two years. Within each holding company, subsidiaries and affiliates will be examined as appropriate. And we will conduct thorough compliance examinations of a statistically valid sample of the other banks every year.

At the same time, we are making absolutely clear to bank management that compliance is, without doubt and without qualification, a management function deserving the same effort as other management functions.

Our revised compliance approach is being accompanied by additional OCC training for examiners, presentations to banking and consumer groups, and briefings for consumer and community organizations that have an interest in consumer financial service issues. We want bankers to have a clear idea of what is expected of them before an examination takes place.

Besides examination and supervision, what else has the OCC done in response to consumer concerns recently?

The OCC regularly issues to examiners and to all national banks Circulars and Advisories that call important issues to their attention.

For example, in February 1985, we issued a circular on branch closings that encouraged banks to consider alternatives to branch closings where feasible, or to provide ample notice to consumers when branch closings are planned.

In August 1985, we issued a circular on basic banking services that encouraged national banks to offer low-cost depository service options for low- and moderate-income consumers. And we joined in a similar statement with the Federal Financial Institutions Examination Council last year.

Banks are responding to the demand for basic banking services. For example, Chemical Bank late last month announced a low-cost basic banking service called "Special Banking."

According to the *American Banker:* "Special Banking can be a checking account, a savings account, or both. There is no minimum balance requirement, and an account can be opened with as little as $1. The account comes with an automated teller machine access card and a consolidated monthly statement."

Following our basic banking circular, in July 1987, we issued an advisory on the care that must be taken in the area of investable balances. We reminded national banks that use of the investable balance method for calculating deposit interest on less than the full deposit must be made clear to the depositor at the time the account is opened, and in bank advertisements.

And just last October we issued an advisory alerting all national banks to the risks of home equity lending to banks and consumers.

More generally, the OCC operates a consumer complaint system to aid consumers with concerns about bank prac-

tices or matters of law and regulation. When a consumer contacts the OCC directly for help, one of several things generally happens. We explain the relevant laws and regulations to the caller. In routine cases, we contact the bank to determine the nature of the problem and how it can be resolved. In some cases, consumer complaints may result in the issuance of a banking Circular or Advisory or special instructions to examiners to look for violations of law. And, in other cases, consumer complaints can trigger a special examination of a bank or banks.

Furthermore, the OCC is continuing to make special efforts to communicate with bankers and bank customers about key issues of concern and opportunities for banks to meet consumer financial services needs through conferences, roundtables and other meetings.

I've gone over the OCC's record in such detail to illustrate that we have made and will continue to make every effort we can to meet our responsibilities to consumers and to keep our lines of commmunications open with groups such as CFA.

All that being said and done, I am reminded of the time British Prime Minister Winston Churchill was on his way to the United States in 1953 on the ocean liner Queen Mary. He was served brandy after dinner in the enormous main dining room of the ship. Turning to his science adviser, Churchill asked whether all the brandy he had consumed in his adult life, about a bottle every day, would fill the room.

The adviser, Lord Cherwell, made some quick calculations and told Churchill that his consumption would fill the room about up to the Prime Minister's nose.

Seeming a bit disappointed, Churchill reflected a moment and then said: "So much done — and so much left to do."

We view promoting compliance with consumer laws, responding to consumer complaints and reaching out to consumer organizations to be important parts of OCC's mission. But just as important to the consumer in general is what remains to be done: the restructuring of the financial system to make it more effective and efficient by granting banks the authority to engage in a wider range of financial activities.

For example, there is a general consensus that benefits could accrue to both consumers and banks if Congress were to allow banks to enter the insurance business more widely by operating insurance agencies, and possibly by insurance underwriting.

Don't take my word on it, take the CFA's.

Your recent study showed that competition from banks could lower costs industrywide, impose greater discipline on insurance companies and, thus, provide consumers with more cost-effective choices. Surveys of policyowners costs for life insurance have repeatedly shown that, in those states where it is allowed to be sold, savings bank life insurance costs less than insurance from other providers.

Furthermore, Robert Hunter, president of the National Insurance Consumer Organization and a frequent speaker at CFA functions, testified in favor of bank insurance activities as a boon to the consumer before the Senate Banking Committee last July. He said that he believes granting banks insurance authority would lower prices and provide more convenience because market competition would increase and concentration in the insurance industry would be diluted.

If this reasoning argues in favor of allowing banks to get into insurance activities, it also argues in favor of increasing the securities activities in which banks are allowed to engage.

If Glass-Steagall Act restrictions for banks were eliminated, many benefits could accrue to the consumer.

First, consider mutual funds and other retail securities services. Increased competition with the securities industry in the field of retail services such as mutual funds would, for the same reasons that apply to the insurance industry, bring the consumer cost savings. Such competition would also mean more convenience for the consumer.

In addition to these immediate, obvious benefits, reducing Glass-Steagall restraints would also benefit the consumer in less obvious, but just as direct, ways.

For example, new underwriting authority would allow banks to package and sell directly securities backed by mortgages originated by themselves and by other lenders, including smaller banks, thrifts and mortgage bankers.

Bank entry here could lower the costs of mortgage credit to consumers in at least three ways:

One, through bank savings on underwriting fees now paid to a limited number of non-competitive underwriters. Two, through increased competition for the purchase of mortgage loans by banks for packaging into mortgage-backed securities. And, three, through increased competition for mortgage securities by investors of all types.

Furthermore, bank entry could increase the flow of lower-cost mortgage credit to consumers in rural and capital poor areas. How? Banks engaged in underwriting would be able to purchase and securitize loans from smaller, low-volume lenders who do not themselves actively participate in the secondary market. In turn, this would provide low-

volume lenders with an outlet for longer term mortgages and help replenish funds for additional lending to consumers.

Similar benefits would follow for other types of consumer loans if Glass-Steagall restrictions are eliminated because banks would have significantly expanded opportunities to securitize and sell these loans on national markets.

Bank underwriting authority could help reduce, through competition among banks and investors, interest charges consumers now pay on personal loans, auto loans, home equity lines of credit and credit card receivables. As with mortgage-backed securities, many banks could go beyond securitization of their own assets by purchasing these types of consumer loans from other originators for securitization and resale. Again, doing so would replenish funds for additional lending by these originators and help them reduce costs, which could be passed on to consumers in the form of lower rates.

What about state and local revenue bond underwriting?

If Glass-Steagall restrictions are eliminated, increased competition in this highly concentrated market could reduce borrowing costs for state and local governments. What do they use these borrowings for? Important facilities and improvements which support development, community revitalization, business expansion and economic growth.

Consumers would benefit through savings on tax assessments, fees and user charges that often accompany revenue bond-funded projects.

Finally, consumers could also benefit, albeit indirectly, from bank authority to securitize commercial loans, including small business credits. Bank underwriting authority would provide impetus for development of a secondary market for small business loans and could, in turn, allow banks to offer longer-term, lower cost financing to small, expanding firms than might otherwise be possible. Consumers would benefit from increased competition in the small business sector and from lower financing costs passed on to the consumer in the prices of goods and services. Almost all of the benefits I have talked about this morning will be direct and tangible for the American consumer.

Competition will work.

Ask the man who bought one of those new digital watches in the early 1970s for $400. Or the woman who moved her funds from a bank account to a money market mutual fund in 1979.

The benefits of competition, particularly the cost benefits, are clear. And they are compelling.

This organization, as I pointed out earlier, has already found clear and compelling benefits in opening insurance activities to banks. And I'm sure it could find them elsewhere where financial service providers are insulated from bank competition.

Twenty years ago, about the time CFA was formed, my predecessor, Comptroller William Camp observed: ". . . the public interest would best be served by insuring the fullest use of the great potential of the banking system to serve consumer needs — within the limitations of bank solvency and liquidity.

"In financial, as in other markets, the presumption lies in favor of maximizing competition, and banks should not be excluded from any financial market which they may safely and prudently serve."

Nothing has occurred in the last two decades to qualify this observation, and a great deal has happened to advance it.

As representatives of the American consumer, I urge all of you to approach financial restructuring asking the threshold question we ask at the OCC: will it benefit the consumer? And if you do, I am sure you will join us in concluding the time has come to give the financial services consumer a better deal.

Remarks by Robert L. Clarke, Comptroller of the Currency, before the Utah Bankers Association 1988 Business and Banking Forum, Salt Lake City, Utah, January 5, 1988

Thank you, Senator Garn, and good morning.

Over the years, it has become commonplace to talk about the Washington, DC-New York City axis. Certainly, there are many connections between the two. Enough, in fact, to keep several major airlines and Amtrak in the business of shuttling passengers back and forth every business day. But New York isn't the only place that has strong ties with Washington, D.C. Anyone could just as well talk about the Washington, D.C.-Utah axis.

I was not surprised when I read recently that the Utah bar has more graduates of the George Washington University's National Law Center than any other state bar association. I was not surprised, because I work with Utahans in Washington almost every day.

From my perspective, it would be impossible to overstate the enormous contribution that Utahans make to good government in Washington. In my field, banking, Utah has a tradition of sending many of its best and brightest to work in the nation's capital, a tradition that began a half-century ago when Marriner S. Eccles became the chairman of the Federal Reserve Board.

Your former Senator, Wallace Bennett, served on the Senate Banking Committee. More recently, Dick Pratt headed the Federal Home Loan Bank Board, while Brent Beesley was in charge of the federal savings and loan insurance fund.

Charles Bradford is today chief economist at the National Credit Union Administration. Jordan Luke is chief counsel at the Bank Board, while an adopted son of the state, Danny Wall, is its head. And, of course, this honor roll of Utah Banking Leadership in Washington would be incomplete without Jake Garn.

There are many reasons why I admire Jake Garn, but two of his many qualities stand out.

The first is his intellect — his love of ideas, his openness to fresh ideas and his quickness of mind — all of which often find expression in his wit, a fact that people testifying before the Senate Banking Committee often discover too late.

Not too long ago, one such witness found out just how quick-witted and perceptive Jake Garn can be. This witness was arguing against any change in banking regulation in this country and was attacking the Banking Committee for considering the potential benefits of any such change.

"Mr. Chairman and members of this Committee," the witness said, "potential benefits from banking restructuring are not facts, they are mere ideas. Ideas have no reality. Ideas don't exist, facts do. I urge this committee to consider only the facts."

And Jake Garn replied: "Thank you. We will give your IDEA the consideration it deserves."

The second reason I admire Jake Garn is his commitment to seeing that things are done right, even if that means he does them himself.

I've been told that it was this commitment that brought Senator Garn into politics in the first place. The story may not be new to many of you, but even if not, it bears retelling for the benefit of those here who have never heard it.

As a Utah Air National Guard officer, Jake Garn had a tough time negotiating a lease at the city airport here. Tension built until a city commissioner said to him one day: "If you don't like the way the city is run, why don't you run for election?"

He did, winning a term on the City Commission in 1967. By 1972 he was Mayor.

I could spend the morning singing the praises of Jake Garn, but I wasn't invited here to do that.

I was invited to talk about banking, in particular, the continuing effort to restructure the banking system, an effort to extend the range of services banks offer so that they can compete with emerging financial supermarkets at home and abroad in a fair environment and provide the consumer — individual and business — with better financial services at what may well be a lower price.

At the same time, banking restructuring would also have the less obvious effect of strengthening the banking system as the foundation of which business builds and grows.

Senator Garn has given, and continues to give, his enormous contribution to this effort. Why did the Senator make this commitment? Why does he continue to do so? Because it is important. Because it is the right thing to do.

At present, it is true that banking restructuring is an idea. But ideas are just as real as facts, because ideas have consequences.

Banking restructuring is the right thing to do for two reasons, for two types of consequences. Those that will likely happen if banking is restructured. And those that will likely happen if it isn't restructured.

What will happen if banking isn't restructured?

A former University of Utah student and reporter for the Salt Lake City *Tribune* and the *Deseret News* — Jack Anderson — recently wrote a column that states the consequences clearly and concisely: "Hamstrung by the rules, banks have watched as virtually every banklike or thriftlike product has been taken over by diversified financial services firms . . .

Anderson wrote: "The fact is the current situation will slowly lead to a less safe and sound banking system.

"And a threat to banking is a threat to the availability of loans in the private sector, a threat to the financial system

in which trillions of dollars change hands each day, a threat to the conduct of monetary policy, and even a threat to the safety of savings.

Jack Anderson is so fond of understatement. But he does make his point: banking restructuring is needed first of all to reverse the industry's fifteen year decline in profitability, in other words, to prevent bad things from happening.

That alone is a compelling argument for restructuring. There is, however, another side to the argument — a brighter side that I touched on before.

Here is one principal reason for removing the barriers that prevent banks from competing: consumers will benefit. Individual consumers will benefit. And businesses that are consumers of financial services will benefit.

Let's look just briefly at some of the benefits that could and would happen if the barriers between banking and the securities industry were relaxed.

First, consider bank underwriting of municipal revenue bonds as one example. Commercial banks have long been competitors and partners of investment banking houses in the underwriting of municipal general obligation bonds. However, the courts have interpreted the Glass-Steagall Act to bar commercial banks from underwriting most municipal revenue bonds.

As you may know, revenue bonds are a major source of funding for the construction of public-service facilities: airports, hospitals, road and bridges, industrial parks and so on.

The adverse effects on the public of the courts' prohibition of bank underwriting in this area are well established. From the standpoint of consumers of underwriting services — the municipal authorities that issue revenue bonds — the absence of bank competition in revenue bond underwriting raises the cost of municipal financing.

If Glass-Steagall restrictions in this area were eliminated, increased competition in this highly concentrated market could reduce borrowing costs for state and local governments. The savings that would be realized from commercial bank underwriting of revenue bonds are sizeable. When spread over the long life of the many billions of dollars of revenue bonds issued annually, reductions in the interest rate of a few basis points on each bond amount to substantial reductions in financing costs.

Indeed, 10 years ago analysts predicted that issuers could save as much as $369 million a year if banks were allowed to compete in this area. The volume of newly issued revenue bonds has more than doubled since then.

Furthermore, if banks were allowed to compete, other consumers — individual and business — would also benefit through savings on tax assessments, fees and user charges that often accompany revenue bond-funded projects.

How about bank underwriting of corporate securities? It is reasonable to believe that businesses, like municipalities, would benefit from a removal of Glass-Steagall barriers.

Underwriting opportunties presented by small-to-regional companies would seem to be especially favorable for regional commercial banks. These companies, which I am sure include many of your own, cannot ordinarily choose from among as many competing and underwriting syndicates as do the largest firms. These companies would welcome the competition for their underwriting needs that their commercial bank could provide. Their bank, and for many of you that means your bank, is often familiar with the company's total financial needs and could arrange a total package that best suits the circumstances.

Furthermore, the effect of wider underwriting authority could greatly enhance bank efforts to securitize commercial loans, including small business credit. In addition, bank underwriting authority would provide impetus for development of a secondary market for small business loans and could, in turn, allow banks to offer longer-term, lower cost financing to small, expanding firms than might otherwise be possible.

Just as state and local governments and businesses would benefit from more bank competition in the securities field, so too would the individual consumer. Increased competition with the securities industry in the field of retail services such as mutual funds would bring the consumer cost savings. Such competition would also mean more convenience.

In addition to these immediate, obvious benefits, relaxing the restraints of Glass-Steagall would benefit the consumer in less obvious, but just as direct, ways.

For example, new underwriting authority would allow banks to package and sell directly securities backed by mortgages originated by themselves and by other lenders, including smaller banks, thrifts and mortgage bankers. Bank entry here could lower the costs of mortgage credit to consumers in at least three ways. One, through bank savings on underwriting fees now paid to a limited number of noncompetitive underwriters. Two, through increased competition for mortgage-backed securities. And, three, through increased competition for mortgage securities for investors of all types.

Furthermore, bank entry could increase the flow of lower-cost mortgage credit to consumers in rural and capital

poor areas. How? Banks engaged in underwriting would be able to purchase and securitize loans from smaller, low-volume lenders who do not themselves actively participate in the secondary market. In turn, this would provide low-volume lenders with an outlet for longer term mortgages and help replenish funds for additional lending to consumers.

Similar benefits would follow for other types of consumer loans if Glass-Steagall restrictions are eliminated because banks would have significantly expanded opportunities to securitize and sell these loans on national markets. Bank underwriting authority could help reduce, through competition among banks and investors, interest charges consumers now pay on personal loans, auto loans, home equity lines of credit and credit card receivables.

As with mortgage-backed securities, many banks could go beyond securitization of their own assets by purchasing these types of consumer loans from other originators for securitization and resale. Again, doing so would replenish funds for additional lending by these originators and help them reduce costs, which could be passed on to consumers in the form of lower rates.

I could go on and on this morning discussing similar benefits that would arise for the consumer from bank competition in insurance and in real estate, two businesses, like securities, where banks face competitive barriers.

The point, however, would be the same whatever specific business you analyze. The enhanced competition that would result from bank entry into the field would improve the selection availability and quality of financial services. And bank entry itself would strengthen the commercial banking system by increasing income-earning opportunities, thereby reducing banking vulnerability to declines in specific economic sectors and geographic markets. At bottom, we all benefit when the banking system is strong and we all lose when it is not.

In short, that is why Jake Garn and I and so many other people in Washington have been working to persuade Congress to restructure the banking system. We see the consequences if it is. And we fear the consequences if it is not.

The consequences for the industry if it is not restructured would be similar to what would have happened had the government forced aircraft producers to stick with propellers after the invention of the jet engine: at best, the decline of the industry into ultimate obsolescence.

The consequences for the economy, however, would be far greater, because if banking is allowed to decline into obsolescence, all producers, all consumers, ultimately would feel the direct effect.

Fortunately, over the last year, the concept, the idea, that banking must be restructured has come to be accepted by more and more policymakers in Washington and by objective observers there and elsewhere.

A year ago, I would never have guessed that Jack Anderson would write a column favorably describing banking's need for new service opportunities. The subject, I would have said, was too arcane, too esoteric, too technical. I would have expected to see such an argument in the *Wall Street Journal* or in Britain's *The Economist* — but in Jack Anderson?

The fact that it did appear in Jack Anderson's column, as well as in the *Wall Street Journal, The Economist, The New York Times,* the *Dallas Morning News* and many other publications, only underscores the fact that the restructuring of the banking system is an idea whose time has come.

Its wide acceptance, however, doesn't ensure that anything will be done about it.

As Will Rogers once put it: "Even if you are on the right track, you'll get run over if you just sit there." We are on the right track. But we have to get moving if we want to go anywhere.

If we are to get moving, Jake Garn and I and the other people in Washington who are working to persuade Congress to restructure the banking system need support, support from you.

The bankers in the audience have heard our call for support many times, restructuring the banking system has been an issue in Washington for more than 6 years. They have responded. Today I am asking the business people here also to respond by taking a few very simple steps.

First, ask your banker hosts for this meeting whether I've described the need for restructuring — and the consequences if it is and if it isn't — accurately. If I have, consider how those consequences would affect you. And if the consequences of doing something outweigh the consequences of doing nothing, as I am sure that they will, offer your senior Senator, his allies in Congress, and the Administration whatever support you can as business people. Volunteer to speak out on the issue — do missionary work outside of Utah — to convince others that your interests as business people are at stake. Follow your Senator's lead. Make a commitment to seeing that the right thing is done.

Remarks by Robert L. Clarke, Comptroller of the Currency, before the Exchequer Club, Washington, D.C., January 20, 1988

In the old *Andy Griffith Show* on television, Deputy Barney Fife once asked Sheriff Andy why he had good judgment.

"Well," said Andy, "good judgment comes from experience."

Barney then asked: "Then where does experience come from?"

Andy's answer was: "Experience comes from bad judgment."

I've been thinking a lot lately about experience and judgment — good and bad.

One benefit of the lull in Washington between Christmas and the reconvening of Congress is that it gives all of us the opportunity to do those things that we don't seem to have the time to do when the gang of 535 are in town.

The last few weeks I was finally able to read a book that had been resting in my briefcase for many months: *Thinking in Time: The Uses of History for Decision Makers.* The book is based on a course the authors, political scientist Richard Neustadt and historian Ernest May, teach at Harvard's Kennedy School of Government.

The first of the authors' many recommendations for government decision makers is a simple one: analyze the situation you face. In other words, disassemble the situation into elements that you know to be the case, elements you presume to be the case, and elements on which you are unclear. And examine each one. A simple process, the authors say, but one often overlooked in a capital city dedicated to crisis management.

While reading *Thinking in Time*, I remembered a comment from Will Rogers: "It's not what government officials don't know that is the problem, the problems is what they think they know that isn't true."

Doing the type of analysis that Neustadt and May suggest is a way for government decision makers to avoid acting on knowledge that we think we know that isn't true. For it to work, we have to take the time and make the effort to subject even seemingly self-evident matters to scrutiny.

Coincidentally, the OCC is doing just that with a major project we began several months ago: an evaluation both of the factors that contributed to the failure of national banks since 1979 and of the factors that contributed to the recovery of troubled ones during that time.

In light of our experience, we are re-examining the conventional wisdom concerning what people think they know about the causes contributing to national bank failures, what they presume about those causes, and what was unclear before we at the OCC made our effort. Our preliminary findings will surprise some people. And if these findings hold up as we continue our analysis, they will sharpen the focus of our regulatory effort at the OCC for many years to come.

I also expect they will influence the regulatory efforts of our sister bank supervisory agencies, too.

The situation we are analyzing is a familiar one to all of you. Since 1979, the bank failure rate has soared.

In the period covered by the first part of our survey — 1979 through the first 10 months of 1987 — we studied 33 national banks that failed between 1979 and 1984, 29 that failed in 1985, 47 that failed in 1986, and 53 that failed in the first 10 months of 1987.

We all know that the vast majority of the banks that failed were small institutions. We all know that the vast majority of these failures, about 80 percent of the failed national banks since 1979, have occurred in America's heartland. And we know this region has been pummeled by depressed conditions in agriculture, in energy production and in real estate.

Many thoughtful and knowledgeable observers, accepting without question the old adage that a bank can only be as strong as its local market, have presumed that there was a direct and overarching cause-and-effect relationship here.

Obviously, according to their line of reasoning, if agricultural America has problems, agricultural banks that serve them will have financial problems. If the oil patch suffers from depressed economic conditions, the banks in the oil patch will suffer too. And riding this train of thought down the line, thoughtful and knowledgeable observers have concluded that if many local bank customers, pummeled by financial problems, go out of business, we can expect many banks that serve them to go out of business, too.

The questions we at the OCC began asking ourselves several months are: Is the widely-held presumption correct? Is that all there is to it? Are there elements in the situation that are presently unclear and can we clarify them? In short, will the simple explanation — bad economic times

in and of themselves alone caused the rise in bank failures — hold up under detailed examination and analysis?

In search of answers, we began our two-phase investigation. The first phase, now completed, was, as I said before, a survey of nearly all the national banks that failed since 1979. In other words, the first phase was a clinical history. And it reflects subjective judgments as most histories do.

All together, we reviewed examination reports, bank histories, and other information for 162 banks that the OCC declared insolvent, failures that the FDIC handled through a purchase and assumption transaction, a deposit transfer, or a pay-off of insured depositors.

The second phase now underway, as I touched on briefly before, involves similar surveys of a sample of banks that became problem banks but recovered and a sample of banks located in the same areas as those that failed that remained healthy throughout the last decade. By analyzing the information generated by these surveys, we hope to identify factors that consistently appear in problem banks and failed banks but do not often appear in healthy banks and, to identify important changes that problem banks made, changes that led to their recovery.

In general, we seek to gain from our study clear evidence of the conditions that banks must avoid if they are to remain healthy and to provide our supervisory staff with information that will help examiners identify potential difficulties.

Rather than wait for the entire study to be completed, I decided to make the results from phase one public today for this important reason: some bank managements may recognize the patterns our study found prevalent in failures to be exisitng at their own institution. If they do, and they reverse those patterns in their institutions, they may avoid the decline of their institution or even its closing in the future.

It is true that good judgment comes from experience and experience comes from bad judgment, just as Andy Griffith said. But that doesn't mean that the experience and bad judgment that leads to good judgment has to be your own. You can learn from the experience and bad judgment of others. You can learn to avoid using bad judgment when you see how bad judgment injured others.

Two Harvard professors call that process "thinking in time." I call it education. And I decided to make our study's phase one findings public today so that bankers may educate themselves as to what not to do. So, with this justified hope, I now turn to the findings.

From the first phase of our project we have identified several factors consistently present in the national banks that failed.

It will surprise no one here that the factor that was most often significant in the failure of these banks was poor asset quality. Ninety-eight percent of the banks surveyed had this problem.

That finding, however, begs the question: what caused the loan portfolios of these banks to deteriorate so markedly that the banks failed?

Poor asset quality can arise from two underlying factors: one, poor policies, planning, and management; and two, depressed economic conditions.

Although we frequently found these problems to be interrelated, management weaknesses were more often observed. In other words, we determined that depressed economic conditions contributed to, but were not the direct and sole cause of, most national bank failures in the last decade.

From the simple fact that a bank operated in a depressed economic sector we cannot infer that the economic conditions played the primary role in its failure. These conditions played a key role in the failure of only 35 percent of the banks we analyzed, although we found that the percentage increased over the time period of the survey. During the years 1979 through 1984, depressed economic conditions contributed significantly to only 21 percent of the failures, while in the last 3 years they contributed significantly to almost 40 percent. So even with that rising trend, it was clear that factors other than economic conditions continue to be significant in the majority of national bank failures.

Furthermore, even in the failures where economic conditions played a significant role, a depressed economic environment was rarely the sole cause of a bank's decline. In fact, it was the sole significant factor in the failure of only 7 percent of the banks in the project.

Even in the majority of cases where the economy played a significant role, depressed economic conditions apparently revealed other problems that did not have such severe consequences in better economic times.

These problems most frequently involved deficient policies, planning and management inside the bank — the same factors that dominated in failures where the economy played no significant role, factors to which I now turn.

Eighty-nine percent of the banks we studied were judged to have had deficiencies in management, management either by the board of directors or by bank officers.

In short, our findings suggest that banks continue to fail the old fashioned way: through managerial incompetence, director neglect, and so on. The findings suggest they continue to fail from the multitude of sins of commission and

confession that, we as bank supervisors have traditionally examined for and condemned, sins that in many cases became deadly when the economic environment worsened. Our findings, coupled with the fact that many banks have survived while operating in economically depressed environments, suggest that even in those failures where depressed conditions played a significant part, management weaknesses made the bank vulnerable to those conditions.

In other words, while depressed economic conditions may have been the complications to which the bank succumbed, the disease of managerial weakness debilitated it and made it susceptible to those complications.

Though analogies alone don't prove anything, one analogy suggests itself to me here. I collect antique Indian pottery. Dealers will sometimes take cracked and broken pettery and glue it back together so skillfully that the flaws don't show. One test to see if a piece has been repaired that way is to plunge it into a bucket of cold water. If it has been cracked, the crack will reappear. If it has been broken, it is likely to fall apart. For a bank, a depressed economic environment is like a bucket of cold water.

When a bank is immersed in a depressed economy, management weaknesses will be exposed. What do I mean by management weakness? What factors were frequently found to be significant problems for the failed banks under study?

Nearly 60 percent of the banks that failed were judged to have a board of directors that either lacked necessary banking knowledge or was uninformed or passive in its supervision of the bank's affairs.

Our findings suggest strongly that banks that fail consistently lack policies, systems, and controls — all shortcomings in board oversight — to guide bank staff in performing the tasks required to maintain a well-managed and income-producing loan portfolio.

Eight-one percent of the failed banks had loan policies that were followed poorly, or none at all. Sixty-nine percent had inadequate systems to ensure compliance with internal policies or banking laws. Sixty-three percent had inadequate controls or supervision of key bank officers or departments. Fifty-nine percent had inadequate systems for identifying problem loans. Virtually half had asset and liability management policies that were poorly followed, or none at all. And in more than half of the failed banks, one individual dominated the management of the institutions — it was a one man or one woman show — although that did not always have a negative effect.

Furthermore, in 43 percent of the failed banks, the board of directors and management were found to be overly aggressive, excessively growth-minded or extremely liberal in credit administration, in a way that harmed the bank's performance.

Under liberal credit administration we included loan terms, standards and collection practices that were out of line with good management techniques.

Along with incompetence and a free-wheeling style, malfeasance also had a part to play. Insider abuse or fraud, problems often related to the lack of oversight and controls, were apparent in many of the failed banks, about one-third.

Self-dealing, undue dependence on the bank for income, inappropriate transactions with affiliates, unauthorized transactions, and other actions that fall under the rubric "insider abuse" were found to be a significant factor in the failure of 58 banks. In other words, 35 percent of those surveyed.

In 16 banks, fraud was also thought to have contributed significantly to failure.

In summary, what does the postmortem, the clinical history, phase of our project suggest? Three important patterns:

One — establishing and adhering to sound policies and procedures appear to be important to a bank's success. Banks that fail almost invariably have poor policies, planning and management.

Two — it was often the combination of poor management and distressed economic conditions, not economic conditions alone, that was the driving force behind the failures surveyed.

Three — managerial strength is likely to be a strong factor in separating banks that survive from those that don't under depressed economic conditions.

Indeed, in good economic times as well as in bad — bankers and bank directors who want their institutions to survive and prosper must be tough — tough on themselves.

Now we are not saying that the characteristics and conditions we found in our study, individually or in combination, necessarily mean the kiss of death to any bank where they are found. And we cannot say for certain that banks in which many of these characteristics and conditions exist are in imminent danger of failing.

We can, however, state that many banks that do fail consistently share these characteristics and conditions. If I were a banker, or a bank director, at any institution, but

especially one in a distressed economic environment, and I found these conditions there, I would be gravely concerned.

Now those of you who have followed banking regulation over time, and I know many of you have, are aware that our policies, for the most part, are intended to guide bank management into following good management practices.

At the OCC we have long operated on the theory that management adherence to good techniques is important to a bank's success, just as we have long operated on the theory that director attention to the business of the institution is equally important to success. In a direct way, our study is intended to test those theories, and, so far, it appears to have confirmed them.

In a weak economy, good management, from bank officers and directors, appears to be the determining factor in success and failure. And it may very well be the only factor over which bankers and bank supervisors have control.

As many of you know, more than 10 years ago the OCC began to emphasize the fostering of managerial expertise and competence in our supervision of the national banking system.

Then, 2 years ago, we further refined our approach to bank supervision. We began more off-site surveillance to continuously monitor individual institutions in an effort to come to grips with problems when they are still incipient. We began to concentrate more of our resources on those institutions where systemic problems were likely to occur. We increased our efforts to work with bankers in a consulting capacity. And we began to stress even more than we had before the importance of banks having and following policies — of having and operating control systems.

The preliminary results of our study indicate that both the shift in examination philosophy we instituted more than a decade ago and the supervisory approach we began 2 years ago were justified. And as our study continues, we believe it will result in information that will help us further tailor our supervisory approach:

Information that will give us a better feel for the right time to begin working with bank management to address problems before they show up in a big way.

Information that will add to our list of warning indicators that spark a strong regulatory response to a bank's problems.

Information on how effective our communications with management and directors are.

Information that may lead to alternative methods of supervisory action.

In short, the second phase of the study promises not only to continue to confirm our thinking, but also to give us more to think about and more direction to act upon.

As federal bank supervisors, we cannot keep banks from failing. We cannot, and should not, as outsiders run banks. That's why bankers were created.

We can monitor banks for violations of laws and regulations, for example, fraud and insider abuse, and we can penalize violations where we find them. Which we do.

We can also monitor banks for unsafe and unsound banking practices — assess asset quality, liquidity, and so on — and pressure, indeed, order, bankers to end unsafe and unsound practices where we find them. Which we do.

In other words, we can address problems after they have occurred and in doing so fall under my colleague FDIC Director C.C. Hope's tongue-in-cheek definition of bank examiners: people who come down from the hills to shoot the wounded after the battle is over.

We can, and we do, perform these problem control functions. But we also see problem prevention as part of our mission, not by running banks ourselves, but by helping bankers with our guidance on how to avoid disaster.

As I stated before, we view bad management as something akin to a disease. When you are seriously ill, the sickness goes through two phases: When it is incubating . . . And when it it devastating.

When the illness is incubating, symptoms may not show, but you are sick anyway. If you treat the illness when it is incubating, you may avoid or limit the devastation it can cause.

From the first part of our study we conclude that the banks that didn't make it through tough economic times were done in most often by a failure to have "quality management," that is to say, a failure to have: systems of control in place, clearly stated policies that officers and staff followed, competent and honest managers, and directors who took their responsibilities seriously.

We hope the second part of our study will confirm that those banks that survived depressed economy did have "quality management," in all senses of the term.

If, as we believe, quality management is the key, we will continue to help clean up the devastation after it occurs, but, to prevent devastation from occurring, we will work harder to help bankers in all economic climates deal with problems while those problems are incipient.

395—August 24, 1987

In your letter to Roberta W. Boylan, Director, Legal Advisory Services Division, dated February 17, 1987, you asked this Office for a ruling on the permissibility of a proposed transaction between a publicly traded real estate company, which you represent, and a national bank (bank). The real estate company, listed on the New York Stock Exchange, is interested in exchanging its preferred stock for certain other real estate owned (OREO) which the bank acquired as the result of a debt previously contracted (DPC). It is my understanding that the preferred stock would be nonvoting and restricted as to sale for 2 years but would be convertible to common stock after 2 years. Additional consideration may include zero-coupon debentures. You concluded that the transaction should be permissible because the stock would be, in substance, DPC stock. For the following reasons, it is my opinion that in some circumstances, as set forth below, a bank may exchange OREO for certain types of stock and/or debentures.

Exchange of OREO

The Office has taken the position that national banks have implied authority under 12 U.S.C. § 29 and 12 U.S.C. § 24 (Seventh) to exchange OREO for new real estate where the bank is reducing its loss and is not engaging in real estate speculation. Such an exchange is justified solely as a means of improving the marketability of the OREO and of reducing the potential losses thereon. The new real estate must be characterized as OREO and must be disposed of within the 12 U.S.C. § 29 time allotment. Also, the holding period for the new real estate must be measured from the date the legal title to the original OREO was acquired by the bank. Thus, the DPC characteristics of the OREO carries over to the new real estate. Interpretive Letter No. 349, Sept. 12, 1985, Fed. Banking L. Rep. (CCH) ¶ 85,519 ("Sept. 12th letter").*

Stock Acquired Through DPC Transaction

Section 24 (Seventh) of Title 12 of the United States Code forbids a national bank from purchasing "for its own account . . . any shares of stock of any corporation.' The intent of this provision, as part of the Glass-Steagall Act of 1933, was to prevent the use of bank deposits for trading in speculative securities. The history of the Glass-Steagall Act indicates that it was not directed toward stock taken in connection with a DPC. Historically, courts have consistently permitted banks to acquire shares of stock in satisfaction of a debt previously contracted or in settlement of disputed claims. Such acquisitions are authorized as being incidental to the business of banking. *See First National Bank of Charlotte v. National Exchange Bank*, 92 U.S. 122 (1876); *Bouchelle v. First National Bank of Birmingham*, 173 So. 83 (Ala. 1937). The rationale of these cases is to allow a bank to recover its cost relating to the original extension of credit. Accordingly, this Office has taken the position that acquiring corporate stock in a DPC transaction is not a proscribed investment banking activity; rather, it is merely a transaction incidental to the business of making and collecting loans.

Case law indicates that stock acquired in connection with a debt previously contracted must be disposed of as soon as possible consistent with obtaining a reasonably advantageous return. *McBoyle v. Union National Bank*, 162 Cal. 227, 122 P. 458 (1912), *appeal dismissed*, 243 U.S. 26 (1917). The policy of this Office generally has been to set 5 years as a limit, which is consistent with the statutory limit of 12 U.S.C. § 29 for real property acquired in connection with a DPC. *Comptroller's Handbook for National Bank Examiners*, § 203.1

Shares acquired as a stock dividend from shares held by the bank as the result of a debt previously contracted, may be retained under the same rationale applicable to stock acquired in a DPC transaction. It is the Office's view that stock acquired as a dividend must also be disposed of within 5 years from the date of the original acquisition of the DPC stock to which it relates.

Exchange of OREO for Stock

Based on (1) the rationale that permits a national bank to exchange real property acquired DPC for new real property and (2) the ability of a national bank to acquire stock and/or debentures as the result of a debt previously contracted, it is my opinion that real property acquired DPC may be exchanged for stock and/or other securities subject to the conditions set forth below. Since the DPC characteristics of the OREO are considered to carry over to new real estate that is acquired in an exchange, it is my opinion that the characteristics applicable to DPC property should also be carried over to stock acquired by a bank in exchange for OREO. However, once stock

*The Sept. 12th letter notes that in the two jurisdictions covered by the courts in *Williams v. Merchants' Nat. Bank of St. Cloud*, 42 F.2d 243 (D. Minn. 1930), and *Kosse Nat. Bank v. Derden*, 36 S.W.2d 295 (Ct. Civ. App. Tex. 1931), it may be possible to conclude that real estate swaps are *ultra vires*. The letter further notes that this issue can be left for local bank counsel to consider.

This office has also taken the position that OREO may be disposed of through an exchange for mortgages of certain other properties, where the bank would be acquiring seasoned, performing assets (mortgages) in exchange for nonperforming OREO.

has been acquired in exchange for OREO, that stock may not be further swapped for other stock, it would then be too far removed from the original OREO to be considered DPC stock. The stock and any stock dividends must be treated as DPC property and must be disposed of within 5 years from the date the bank acquired the legal title to the original OREO.

Furthermore, the same general considerations and conditions would apply to an exchange for stock that previously have been held to be applicable in an exchange for new real estate. The exchange must in good faith for the purpose of recovering the loan loss or limiting the loss on the loan (not for the purpose of speculation or the expectation of profit), and the stock should be determined to be more marketable than the OREO. In my opinion, the type of stock which would most likely meet these conditions would be stock in a corporation that is publicly traded on an exchange or some other publicly traded market, or an issue of privately traded preferred stock which could be converted into common stock that is publicly traded within the 5-year holding period. In general, the stock of a privately owned company may be of limited marketability. The bank, as a minority shareholder in such a company, may find itself unable to sell the stock within the 5-year holding period. However, the test of marketability should be subject to a rebuttable presumption. For example, if at the time of the exchange the bank contracted to sell the privately traded stock to a buyer within the 5-year holding period, the bank would have sufficiently enhanced the marketability of that stock.

In addition, based on the bank directors' duty to exercise due diligence in managing the affairs of the bank, the exchange should be determined by the directors to be in the best interests of the bank, and the determination should be documented. The value, quality, and liquidity of the stock must be determined. Since there is a risk that the value of the stock will decrease before the bank would be able to sell it (where there is a restriction on the immediate sale of the stock), the directors should carefully weigh the benefits and risks of the exchange. Also, the directors should determine whether there would be any potential conflicts of interest in the exchange, such as a director of the bank owning shares in the company.

Zero-coupon Debentures and/or Other Debentures

By analogy to the Office's position on the exchange of OREO, in my opinion a national bank may exchange OREO for zero-coupon debentures and/or other debentures for the sole purpose of reducing its loss on the OREO. The type of debentures which would most likely reduce the loss for the bank would include the following: (1) a debenture whose term expires, and the bank receives cash, on or before the end of the 5-year holding period regardless of whether the debenture is issued by a publicly traded or privately owned corporation; (2) debentures which are convertible into publicly traded common stock on or before the end of the 5-year holding period at which time the stock would be immediately sold; (3) debentures in a company where the debentures have adequate marketability.

As with an exchange for stock, the directors should determine the exchange for debentures is in the best interests of the bank. The same considerations as discussed above would apply.

I trust my reply is responsive to your question. Please note that this letter does not constitute an evaluation or approval of a particular exchange.

Peter Liebesman
Assistant Director
Legal Advisory Services Division

* * *

Mergers—October 1 to December 31, 1987

Mergers consummated involving two or more operating banks.

There are a number of transactions in this section that do not have an accompanying decision. In those cases, the OCC reviewed the competitive effects of the proposals by using its standard procedures for determining whether the transaction had minimal or no adverse competitive effects. The Office found the proposals satisfied its criteria for a transaction that clearly had no or minimal adverse competitive effects.

BANK OF PALM SPRINGS (NATIONAL ASSOCIATION), Palm Springs, California, and The Bank of California, National Association, San Francisco, California

Names of banks and type of transaction	*Total assets*
Bank of Palm Springs (National Association), Palm Springs, California (21541), with	$ 133,279,000
and The Bank of California, National Association, San Francisco, California (9655), with	4,030,225,000
merged October 1, 1987, under charter of the former and title of the latter. The merged bank at date of merger had	4,172,504,000

* * *

BOATMEN'S FIRST NATIONAL BANK OF KANSAS CITY, Kansas City, Missouri, and Boatmen's Livestock National Bank, Kansas City, Missouri

Names of banks and type of transaction	*Total assets*
Boatmen's First National Bank of Kansas City, Kansas City, Missouri (3456), with	$1,901,383,000
and Boatmen's Livestock National Bank, Kansas City, Missouri (14735), with	43,478,000
merged October 1, 1987, under charter and title of the former. The merged bank at date of merger had	1,940,415,000

* * *

CHARTER NATIONAL BANK HOUSTON, Houston, Texas, and Western Bank-Westheimer, Houston, Texas, and Charter National Bank-Westheimer, Houston, Texas

Names of banks and type of transaction	*Total assets*
Charter National Bank-Houston, Houston, Texas (15078), with	$ 128,556,000
and Western Bank-Westheimer, Houston, Texas, with	260,560,000
and Charter National Bank-Westheimer, Houston, Texas (17105), with	94,009,000
merged October 1, 1987, under charter and title of the Charter National Bank-Houston. The merged bank at date of merger had	NA

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THE FIRST NATIONAL BANK IN CRESTON, Creston, Iowa, and Citizens Savings Bank, Afton, Iowa

Names of banks and type of transaction	*Total assets*
The First National Bank in Creston, Creston, Iowa (12636), with	$ 72,313,000
and Citizens Savings Bank, Afton, Iowa, with	17,712,000
merged October 1, 1987, under charter and title of the former. The merged bank at date of merger had	88,690,000

COMPTROLLER'S DECISION

On May 26, 1987, application was made to the Office of the Comptroller of the Currency by The First National Bank in Creston, Creston, Iowa (First National), for prior approval to purchase certain of the assets and assume certain of the liabilities of Citizens Savings Bank, Afton, Iowa (Citizens). This application was based on an agreement finalized between the proponents on April 22, 1987.

As of March 31, 1987, First National, a wholly owned unit bank of Conover Bancorporation, had total deposits of $66 million. On the same date, Citizens, a wholly owned subsidiary of C.S.B. Bancorporation, Inc., had total deposits of $16 million and operated two offices.

The relevant geographic market for this proposal is the area including and immediately surrounding the county of Union, where both banks operate and derive the bulk of their deposits. Within the relevant market, there are seventeen commercial banks and four thrift institutions holding total deposits of approximately $675 million. First National and Citizens rank third and fifteenth, respectively. The resulting bank would become the second largest depository with approximately 10 percent of market deposits. While the proposed purchase and assumption would eliminate some existing competition, any adverse competitive effects would be mitigated by the market presence of a number of other banking alternatives.

The Bank Merger Act requires this Office to consider the financial and managerial resources and future prospects of the existing and proposed institutions and the convenience and needs of the community to be served. We find the financial and managerial resources of First National and Citizens do not raise concerns that would cause the application to be disapproved. The future prospects of the resulting bank are considered favorable, as are the effects of the proposal on the convenience and needs of the community to be served.

A review of the record of this application and other information available to this Office as a result of its regulatory responsibilities revealed no evidence that the applicants' records of helping to meet the credit needs of their communities, including low and moderate income neighborhoods, are less than satisfactory.

We have analyzed this proposal pursuant to the Bank Merger Act, 12 U.S.C. 1828(c), and find that it will not significantly lessen competition in any relevant market. Other factors considered in evaluating this proposal are satisfactory. Accordingly, the application is approved.

July 30, 1987

SUMMARY OF REPORT BY ATTORNEY GENERAL

We have reviewed this proposed transaction and conclude that it would not have a significantly adverse effect on competition.

* * *

THE FIRST NATIONAL BANK OF MEADE,
Meade, Kansas, and First National Bank, National Association, Garden City, Kansas

Names of banks and type of transaction	*Total assets*
The First National Bank of Meade, Meade, Kansas (7192), with	$ 25,370,000
and First National Bank, National Association, Garden City, Kansas (17805), with	14,129,000
merged October 1, 1987, under charter of the latter and title "First National Bank." The merged bank at date of merger had	39,499,000

* * *

ONE NATIONAL BANK OF NORTH LITTLE ROCK,
North Little Rock, Arkansas, and One National Bank of Little Rock, National Association, Little Rock, Arkansas

Names of banks and type of transaction	*Total assets*
One National Bank of North Little Rock, North Little Rock, Arkansas (14818), with	$ 212,186,000
and One National Bank of Little Rock, National Association, Little Rock, Arkansas (17900), with	42,542,000
merged October 1, 1987, under charter of the former and title "One National Bank." The merged bank at date of merger had	253,369,000

* * *

TEXAS COMMERCE BANK, NATIONAL ASSOCIATION,
Houston, Texas, and Western Bank-Westwood, National Association, Houston, Texas

Names of banks and type of transaction	*Total assets*
Texas Commerce Bank, National Association, Houston, Texas (10225), with	$10,724,476,000
and Western Bank-Westwood, National Association, Houston, Texas (17436), with	44,196,000
merged October 1, 1987, under charter and title of the former. The merged bank at date of merger had	NA

* * *

TEXAS COMMERCE BANK, NATIONAL ASSOCIATION,
Houston, Texas, and Western Bank-North Wilcrest, National Association, Houston, Texas

Names of banks and type of transaction	*Total assets*
Texas Commerce Bank, National Association, Houston, Texas (10225), with	$10,724,476,000
and Western Bank-North Wilcrest, National Association, Houston, Texas (17827), with	41,055,000
merged October 1, 1987, under charter and title of the former. The merged bank at date of merger had	NA

* * *

THE FIRST NATIONAL BANK & TRUST COMPANY OF MCALESTER,
McAlester, Oklahoma, and United Services Bank, Hartshorne, Oklahoma

Names of banks and type of transaction	*Total assets*
First National Bank & Trust Company of McAlester, McAlester, Oklahoma (5052), with	$ 272,369,000
and United Services Bank, Hartshorne, Oklahoma, with	15,327,000
merged October 8, 1987, under charter and title of the former. The merged bank at date of merger had	NA

* * *

THE CITIZENS NATIONAL BANK OF CHARLES CITY,
Charles City, Iowa, and Commercial Trust and Savings Bank, Charles City, Iowa

Names of banks and type of transaction	*Total assets*
The Citizens National Bank of Charles City, Charles City, Iowa (4677), with	$ 66,000,000
and Commercial Trust and Savings Bank, Charles City, Iowa, with	39,902,000
merged October 9, 1987, under charter and title of the former. The merged bank at date of merger had	102,049,000

COMPTROLLER'S DECISION

On May 5, 1987, application was made to the Office of the Comptroller of the Currency by The Citizens National Bank of Charles City, Charles City, Iowa (Citizens), for prior approval to purchase certain of the assets and assume certain of the liabilities of Commercial Trust and Savings Bank, Charles City, Iowa (CTSB). This application was based on an agreement finalized between the proponents on April 3, 1987.

As of March 31, 1987, Citizens, a unit bank, had total deposits of $58 million. On the same date, CTSB, a wholly owned subsidiary of Banks of Iowa, Inc., had total deposits of $36 million. In addition to CTSB, Banks of Iowa, a $2 billion multi-bank holding company, operated thirteen other banks throughout the state of Iowa.

The relevant geographic market for this proposal is the area including and immediately surrounding Charles City, where both proponents operate and derive the bulk of their deposits. Within the relevant market, there are ten commercial banks and one thrift institution holding total deposits of approximately $491 million. Citizens and CTSB rank third and eighth, respectively. The resulting bank would become the second largest depository with approximately 17 percent of market deposits. The Office finds that while the proposed purchase and assumption would eliminate some existing competition, any adverse competition effects would be mitigated by the market presence of a number of other banking alternatives.

The Bank Merger Act requires this Office to consider ". . . the financial and managerial resources and future prospects of the existing and proposed institutions and the convenience and needs of the community to be served." We find the financial and managerial resources of Citizens and CTSB do not raise concerns that would cause the application to be disapproved. The future prospects of the resulting bank are considered favorable, as are the effects of the proposal on the convenience and needs of the community to be served.

A review of the record of this application and other information available to this Office as a result of its regulatory responsibilities revealed no evidence that the applicants' records of helping to meet the credit needs of their communities, including low and moderate income neighborhoods, are less than satisfactory.

We have analyzed this proposal pursuant to the Bank Merger Act, 12 U.S.C. 1828(c), and find that it will not significantly lessen competition in any relevant market. Other factors considered in evaluating this proposal are satisfactory. Accordingly, the application is approved.

August 24, 1987

SUMMARY OF REPORT BY ATTORNEY GENERAL

We have reviewed this proposed transaction and conclude that it would not have a significantly adverse effect on competition.

* * *

THE FIRST NATIONAL BANK & TRUST COMPANY OF MCALESTER,
McAlester, Oklahoma, and Citizens Bank of Krebs, Krebs, Oklahoma

Names of banks and type of transaction	Total assets
First National Bank & Trust Company of McAlester, McAlester, Oklahoma (5052), with	$ 272,369,000
and Citizens Bank of Krebs, Krebs, Oklahoma, with	14,688,000
merged October 14, 1987, under charter and title of the former. The merged bank at date of merger had	NA

* * *

FIRST NATIONAL BANK & TRUST CO. OF WILLISTON,
Williston, North Dakota, and Citizens State Bank of Ray, Ray, North Dakota

Names of banks and type of transaction	Total assets
First National Bank & Trust Co. of Williston, Williston, North Dakota (14275), with	$ 100,646,000
and Citizens State Bank of Ray, Ray, North Dakota, with	11,720,000
merged October 15, 1987, under charter and title of the former. The merged bank at date of merger had	NA

* * *

SOUTHEAST BANK, NATIONAL ASSOCIATION,
Miami, Florida, and Southeast Bank of Walton County, Destin, Florida

Names of banks and type of transaction	Total assets
Southeast Bank, National Association, Miami, Florida (15638), with	$11,779,139,000
and Southeast Bank of Walton County, Destin, Florida, with	12,867,000
merged October 15, 1987, under charter and title of the former. The merged bank at date of merger had	11,790,451,000

* * *

BANK OF NEW ENGLAND-WEST, NATIONAL ASSOCIATION,
Springfield, Massachusetts, and Hampshire National Bank of South Hadley, South Hadley, Massachusetts

Names of banks and type of transaction	Total assets
Bank of New England-West, National Association, Springfield, Massachusetts (308), with	$8,580,541,000
and Hampshire National Bank of South Hadley, South Hadley, Massachusetts (15005), with	551,394,000
merged October 16, 1987, under charter and title of the former. The merged bank at date of merger had	8,580,451,000

* * *

PUGET SOUND NATIONAL BANK,
Tacoma, Washington, and Gig Harbor National Bank, Gig Harbor, Washington

Names of banks and type of transaction	Total assets
Puget Sound National Bank, Tacoma, Washington (12292), with	$1,743,220,000
and Gig Harbor National Bank, Gig Harbor, Washington (21350), with	12,461,000
merged October 19, 1987, under charter and title of the former. The merged bank at date of merger had	1,754,669,000

* * *

VENTURA COUNTY NATIONAL BANK
Oxnard, California, and Conejo Valley National Bank, Thousand Oaks, California

Names of banks and type of transaction	Total assets
Ventura County National Bank, Oxnard, California (17507), with	$ 99,707,000
and Conejo Valley National Bank, Thousand Oaks, California (17582), with	64,812,000
merged October 19, 1987, under charter and title of the former. The merged bank at date of merger had	164,519,000

* * *

FIRST EASTERN BANK, NATIONAL ASSOCIATION,
Wilkes-Barre, Pennsylvania, and Liberty Bank of Carbondale, Carbondale, Pennsylvania

Names of banks and type of transaction	Total assets
First Eastern Bank, National Association, Wilkes-Barre, Pennsylvania (30), with	$1,706,688,000
and Liberty Bank of Carbondale, Carbondale, Pennsylvania, with	61,904,000
merged October 22, 1987, under charter and title of the former. The merged bank at date of merger had	1,766,268,000

* * *

LINCOLN NATIONAL BANK,
Pittsburgh, Pennsylvania, and New World National Bank, Pittsburgh, Pennsylvania

Names of banks and type of transaction	Total assets
Lincoln National Bank, Pittsburgh, Pennsylvania (21654), with	$ NA
and New World National Bank, Pittsburgh, Pennsylvania (16443), with	14,685,000
merged October 22, 1987, under charter and title of the former. The merged bank at date of merger had	NA

* * *

NATIONAL BANK OF ALASKA,
Anchorage, Alaska, and Alaska National Bank of the North, Fairbanks, Alaska

Names of banks and type of transaction	Total assets
National Bank of Alaska, Anchorage, Alaska (14561), with	$1,244,679,000
and Alaska National Bank of the North, Fairbanks, Alaska (14747), with	203,074,000
merged October 22, 1987, under charter and title of the former. The merged bank at date of merger had	NA

* * *

FIRST OF AMERICA BANK-MARQUETTE, NATIONAL ASSOCIATION,
Marquette, Michigan, and First of America Bank-Iron County, Stambaugh, Michigan

Names of banks and type of transaction	Total assets
First of America Bank-Marquette, National Association, Marquette, Michigan (12027), with	$ 58,970,000
and First of America Bank-Iron County, Stambaugh, Michigan, with	18,579,000
merged October 23, 1987, under charter and title of the former. The merged bank at date of merger had	79,123,000

* * *

THE FIRST NATIONAL BANK & TRUST COMPANY OF MARQUETTE,
Marquette, Michigan, and Trenary State Bank, Trenary, Michigan

Names of banks and type of transaction	Total assets
The First National Bank & Trust Company of Marquette, Marquette, Michigan (390), with	$ 198,410,000
and Trenary State Bank, Trenary, Michigan, with	12,206,000
merged October 23, 1987, under charter and title of the former. The merged bank at date of merger had	210,347,000

* * *

SHAWMUT BANK, NATIONAL ASSOCIATION,
Boston, Massachusetts, and Shawmut Merchants Bank, N.A., Salem, Massachusetts

Names of banks and type of transaction	Total assets
Shawmut Bank, National Association, Boston, Massachusetts (15509), with	$6,439,698,000
and Shawmut Merchants Bank, N.A., Salem, Massachusetts (726), with	224,980,000
merged October 23, 1987, under charter and title of the former. The merged bank at date of merger had	6,619,088,000

* * *

NATIONAL BANK OF FORT SAM HOUSTON,
San Antonio, Texas, and First RepublicBank Universal City, National Association, Universal City, Texas

Names of banks and type of transaction	Total assets
National Bank of Fort Sam Houston, San Antonio, Texas (13578), with	$ 679,800,000
and First RepublicBank Universal City, National Association, Universal City, Texas (16846), with	42,300,000
merged October 28, 1987, under charter and title of the former. The merged bank at date of merger had	722,100,000

* * *

NORTHERN TRUST BANK OF FLORIDA, NATIONAL ASSOCIATION,
Miami, Florida, and Northern Trust Bank of Florida/Palm Beach, National Association, Palm Beach, Florida

Names of banks and type of transaction	Total assets
Northern Trust Bank of Florida, National Association, Miami, Florida (17487), with	$ 355,885,000
and Northern Trust Bank of Florida/Palm Beach, National Association, Palm Beach, Florida (17720), with	46,712,000
merged October 28, 1987, under charter and title of the former. The merged bank at date of merger had	382,564,000

* * *

CAPITAL BANK & TRUST CO., NATIONAL ASSOCIATION,
Baton Rouge, Louisiana, and Capital Bank & Trust Co., Baton Rouge, Louisiana

Names of banks and type of transaction	Total assets
Capital Bank & Trust Co., National Association, Baton Rouge, Louisiana (21662), with	$ NA
and Capital Bank & Trust Co., Baton Rouge, Louisiana, with	384,440,000
merged October 30, 1987, under charter and title of the former. The merged bank at date of merger had	NA

* * *

HIBERNIA NATIONAL BANK,
New Orleans, Louisiana, and Shreveport Bank & Trust Company, Shreveport, Louisiana

Names of banks and type of transaction	Total assets
Hibernia National Bank, New Orleans, Louisiana (13688), with	$4,487,000,000
and Shreveport Bank & Trust Company, Shreveport, Louisiana, with	103,000,000
merged October 30, 1987, under charter and title of the former. The merged bank at date of merger had	4,588,000,000

* * *

MICHIGAN NATIONAL BANK,
Farmington Hills, Michigan, and Michigan National Bank-Michiana, Cassopolis, Michigan

Names of banks and type of transaction	Total assets
Michigan National Bank, Farmington Hills, Michigan (16660), with	$7,639,191,000
and Michigan National Bank-Michiana, Cassopolis, Michigan (16371), with	151,189,000
merged October 30, 1987, under charter and title of the former. The merged bank at date of merger had	7,786,475,000

* * *

NORTH PLATTE NATIONAL BANK,
North Platte, Nebraska, and American Security Bank, North Platte, Nebraska

Names of banks and type of transaction	Total assets
North Platte National Bank, North Platte, Nebraska (20195), with	$ 43,250,000
and American Security Bank, North Platte, Nebraska, with	27,124,000
merged October 30, 1987, under charter and title of the former. The merged bank at date of merger had	NA

* * *

SOUTHERN NATIONAL BANK OF NORTH CAROLINA,
Lumberton, North Carolina, and The Union National Bank of Oxford, Oxford, North Carolina

Names of banks and type of transaction	Total assets
Southern National Bank of North Carolina, Lumberton, North Carolina (10610), with	$1,659,840,000
and The Union National Bank of Oxford, Oxford, North Carolina (13859), with	87,270,000
merged October 30, 1987, under charter and title of the former. The merged bank at date of merger had	1,747,110,000

* * *

UNITED BANK OF GREELEY, NATIONAL ASSOCIATION,
Greeley, Colorado, and United Bank of Greeley, Greeley, Colorado

Names of banks and type of transaction	Total assets
United Bank of Greeley, National Association, Greeley, Colorado (3178), with	$ 155,813,000
and United Bank of Greeley, Greeley, Colorado, with	102,118,000
merged October 30, 1987, under charter and title of the former. The merged bank at date of merger had	257,931,000

* * *

UNITED JERSEY BANK/SOUTH, NATIONAL ASSOCIATION,
Cherry Hill, New Jersey, and United Jersey Bank/Lenape State, West Deptford Township, New Jersey

Names of banks and type of transaction	Total assets
United Jersey Bank/South, National Association, Cherry Hill, New Jersey (1346), with	$ 423,576,000
and United Jersey Bank/Lenape State, West Deptford Township, New Jersey, with	113,925,000
merged October 30, 1987, under charter and title of the former. The merged bank at date of merger had	817,483,000

* * *

WILCREST NATIONAL BANK,
Houston, Texas, and Memorial Bank, National Association, Houston, Texas

Names of banks and type of transaction	Total assets
Wilcrest National Bank, Houston, Texas (18044), with	$ 39,469,000
and Memorial Bank, National Association, Houston, Texas (20471), with	19,665,000
merged October 30, 1987, under charter of the former and title of the latter. The merged bank at date of merger had	59,134,000

* * *

FIRST REPUBLICBANK ABILENE, NATIONAL ASSOCIATION,
Abilene, Texas, and InterFirst Bank South Abilene, Abilene, Texas

Names of banks and type of transaction	Total assets
First RepublicBank Abilene, National Association, Abilene, Texas (13727), with	$ 201,100,000
and InterFirst Bank South Abilene, Abilene, Texas, with	37,000,000
merged October 31, 1987, under charter and title of the former. The merged bank at date of merger had	238,100,000

* * *

AMERICAN NATIONAL BANK,
Waco, Texas, and The American Bank of Waco, Waco, Texas

Names of banks and type of transaction	Total assets
American National Bank, Waco, Texas (17319), with	$ 50,059,000
and The American Bank of Waco, Waco, Texas, with	68,887,000
merged November 1, 1987, under charter and title of the former. The merged bank at date of merger had	119,761,000

* * *

FIRST UNION NATIONAL BANK OF GEORGIA,
Atlanta, Georgia, and Savannah Bank & Trust Company of Savannah, Savannah, Georgia, and First Union National Bank of Valdosta, Valdosta, Georgia, and First Union National Bank of Vidalia, Vidalia, Georgia, and Commercial Bank, Waycross, Georgia

Names of banks and type of transaction	Total assets
First Union National Bank of Georgia, Atlanta, Georgia (21161), with	$1,112,324,000
and Savannah Bank & Trust Company of Savannah, Savannah, Georgia, with	493,505,000
and First Union National Bank of Valdosta, Valdosta, Georgia (4429), with	127,038,000
and First Union National Bank of Vidalia, Vidalia, Georgia (15546), with	44,347,000
and Commercial Bank, Waycross, Georgia, with	44,111,000
merged November 1, 1987, under charter and title of First Union National Bank of Georgia, Atlanta, Georgia. The merged bank at date of merger had	3,762,880,000

* * *

FIRST UNION NATIONAL BANK OF GEORGIA,
Atlanta, Georgia, and The Bank of Dalton, Dalton, Georgia, and Commercial Bank & Trust Company, Griffin, Georgia, and First Union National Bank of Newnan, Newnan, Georgia, and First Union National Bank of Rome, Rome, Georgia

Names of banks and type of transaction	Total assets
First Union National Bank of Georgia, Atlanta, Georgia (21161), with	$1,112,324,000
and The Bank of Dalton, Dalton, Georgia, with	69,812,000
and Commercial Bank & Trust Company, Griffin, Georgia, with	214,860,000
and First Union National Bank of Newnan, Newnan, Georgia (8477), with	89,758,000
and First Union National Bank of Rome, Rome, Georgia (10302), with	183,292,000
merged November 1, 1987, under charter and title of First Union National Bank of Georgia, Atlanta, Georgia. The merged bank at date of merger had	3,762,880,000

* * *

HERITAGE BANK, NATIONAL ASSOCIATION,
Holstein, Iowa, and Holstein State Bank, Holstein, Iowa, and Iowa National Bank & Trust, Lytton, Iowa

Names of banks and type of transaction	Total assets
Heritage Bank, National Association, Holstein, Iowa (18269), with	$ 16,804,000
and Holstein State Bank, Holstein, Iowa, with	33,538,000
and Iowa National Bank & Trust, Lytton, Iowa (17877), with	10,311,000
merged November 1, 1987, under charter and title of Heritage Bank, National Association. The merged bank at date of merger had	60,653,000

* * *

TEXAS AMERICAN BANK/FORT WORTH, NATIONAL ASSOCIATION,
Fort Worth, Texas, and Texas American Bank/Riverside, Fort Worth, Texas, and Texas American Bank/West Side, Fort Worth, Texas, and Texas American Bank/Ridgmar, Fort Worth, Texas

Names of banks and type of transaction	Total assets
Texas American Bank/Fort Worth, National Association, Fort Worth, Texas (3131), with	$2,527,250,000
and Texas American Bank/Riverside, Fort Worth, Texas, with	191,981,000
and Texas American Bank/West Side, Fort Worth, Texas, with	208,090,000
and Texas American Bank/Ridgmar, Fort Worth Texas, with	38,150,000
merged November 6, 1987, under charter and title of the Texas American Bank/Fort Worth. The merged bank at date of merger had	2,869,285,000

* * *

FIRST REPUBLICBANK TEMPLE, NATIONAL ASSOCIATION,
Temple, Texas, and First RepublicBank SW Temple, National Association, Temple, Texas

Names of banks and type of transaction	*Total assets*
First RepublicBank Temple, National Association, Temple, Texas (14459), with	$ 164,400,000
and First RepublicBank SW Temple, National Association, Temple, Texas (16983), with	28,200,000
merged November 7, 1987, under charter and title of the former. The merged bank at date of merger had	192,600,000

* * *

FIRST MIDWEST BANK/STREATOR, A NATIONAL ASSOCIATION,
Streator, Illinois, and First Midwest Bank/Joliet, National Association, Joliet, Illinois

Names of banks and type of transaction	*Total assets*
First Midwest Bank/Streator, A National Association, Streator, Illinois (2681) with	$ 82,299,000
First Midwest Bank/Joliet, National Association, Joliet, Illinois (14439), with	405,114,000
merged November 12, 1987, under charter of the former and title "First Midwest Bank/Illinois, National Association." The merged bank at date of merger had	487,413,000

* * *

THE FIRST NATIONAL BANK OF ATLANTA,
Atlanta, Georgia, and First Bank of Savannah, Savannah, Georgia

Names of banks and type of transaction	*Total assets*
The First National Bank of Atlanta, Atlanta, Georgia (1559), with	$6,983,026,000
and First Bank of Savannah, Savannah, Georgia, with	138,184,000
merged November 12, 1987, under charter and title of the former. The merged bank at date of merger had	7,114,059,000

* * *

BANK OF BROOKFIELD-PURDIN, NATIONAL ASSOCIATION,
Brookfield, Missouri, and Bank of Meadville, Meadville, Missouri

Names of banks and type of transaction	*Total assets*
Bank of Brookfield-Purdin, National Association, Brookfield, Missouri (16976), with	$ 35,870,000
and Bank of Meadville, Meadville, Missouri, with	11,164,000
merged November 13, 1987, under charter and title of the former. The merged bank at date of merger had	47,015,000

* * *

THE FIRST NATIONAL BANK OF AMARILLO,
Amarillo, Texas, and West Texas State Bank of Canyon, Canyon, Texas

Names of banks and type of transaction	*Total assets*
The First National Bank of Amarillo, Amarillo, Texas (4214), with	$ 656,487,000
and West Texas State Bank of Canyon, Canyon, Texas, with	20,440,000
merged November 13, 1987, under charter and title of the former. The merged bank at date of merger had	NA

* * *

SHAWMUT BANK, NATIONAL ASSOCIATION
Boston, Massachusetts, and Shawmut First County Bank, N.A., Brockton, Massachusetts

Names of banks and type of transaction	*Total assets*
Shawmut Bank, National Association, Boston, Massachusetts (15509), with	$6,619,088,000
and Shawmut First County Bank, N.A., Brockton, Massachusetts (2504), with	192,313,000
merged November 13, 1987, under charter and title of the former. The merged bank at date of merger had	6,776,401,000

* * *

FIRST REPUBLICBANK EL PASO, NATIONAL ASSOCIATION,
El Paso, Texas, and First RepublicBank Chelmont, National Association, El Paso, Texas

Names of banks and type of transaction	Total assets
First RepublicBank El Paso, National Association, El Paso, Texas (16506), with	$ 207,700,000
and First RepublicBank Chelmont, National Association, El Paso, Texas (17312), with	41,300,000
merged November 14, 1987, under charter and title of the former. The merged bank at date of merger had	249,000,000

* * *

FIRST REPUBLICBANK WACO, NATIONAL ASSOCIATION,
Waco, Texas, and First RepublicBank Lake Air, National Association, Waco, Texas

Names of banks and type of transaction	Total assets
First RepublicBank Waco, National Association, Waco, Texas (3135), with	$ 579,500,000
and First RepublicBank Lake Air, National Association, Waco, Texas (15075), with	141,900,000
merged November 16, 1987, under charter and title of the former. The merged bank at date of merger had	721,400,000

* * *

FIRST UNION NATIONAL BANK OF GEORGIA,
Atlanta, Georgia, and Roswell Bank, Roswell, Georgia

Names of banks and type of transaction	Total assets
First Union National Bank of Georgia, Atlanta, Georgia (21161), with	$3,606,604,000
and Roswell Bank, Roswell, Georgia, with	171,193,000
merged November 16, 1987, under charter and title of the former. The merged bank at date of merger had	3,777,797,000

* * *

FIRST NATIONAL BANK IN BARTLESVILLE,
Bartlesville, Oklahoma, and Republic Bank, Oklahoma City, Oklahoma

Names of banks and type of transaction	Total assets
First National Bank in Bartlesville, Bartlesville, Oklahoma (6258), with	$ 242,644,000
and Republic Bank, Oklahoma City, Oklahoma, with	49,129,000
merged November 19, 1987, under charter and title of the former. The merged bank at date of merger had	NA

* * *

GAINER BANK, NATIONAL ASSOCIATION
Gary, Indiana, and Northern Indiana Bank and Trust Company, Valparaiso, Indiana

Names of banks and type of transaction	Total assets
Gainer Bank, National Association, Gary, Indiana (14468), with	$ 873,951,000
and Northern Indiana Bank and Trust Company, Valparaiso, Indiana, with	257,594,000
merged November 19, 1987, under charter and title of the former. The merged bank at date of merger had	1,134,899,000

* * *

KELLY FIELD NATIONAL BANK
San Antonio, Texas, and Exchange National Bank, San Antonio, Texas

Names of banks and type of transaction	Total assets
Kelly Field National Bank, San Antonio, Texas (14794), with	$ 130,141,000
and Exchange National Bank, San Antonio, Texas (16889), with	18,960,000
merged November 19, 1987, under charter and title of the former, in Leon Valley, Texas. The merged bank at date of merger had	149,092,000

* * *

BANK SOUTH, NATIONAL ASSOCIATION
Atlanta, Georgia, and Heritage Bank, Alpharetta, Georgia

Names of banks and type of transaction	Total assets
Bank South, National Association, Atlanta, Georgia (9617), with	$2,852,698,000
and Heritage Bank, Alpharetta, Georgia, with	245,004,000
merged November 20, 1987, under charter and title of the former. The merged bank at date of merger had	3,181,258,000

* * *

FIRST OF AMERICA BANK-MARQUETTE, NATIONAL ASSOCIATION,
Marquette, Michigan, and First of America Bank-Alger, National Association, Munising, Michigan

Names of banks and type of transaction	Total assets
First of America Bank-Marquette, National Association, Marquette, Michigan (12027), with	$ 79,123,000
and First of America Bank-Alger, National Association, Munising, Michigan (9000), with	19,934,000
merged November 20, 1987, under charter and title of the former. The merged bank at date of merger had	99,057,000

* * *

UNITED BANK OF ARAPAHOE, NATIONAL ASSOCIATION,
Englewood, Colorado, and United Bank of Arapahoe-East, National Association, Englewood, Colorado

Names of banks and type of transaction	Total assets
United Bank of Arapahoe, National Association, Englewood, Colorado (17017), with	$ 54,019,000
and United Bank of Arapahoe-East, National Association, Englewood, Colorado (20263), with	6,586,000
merged November 20, 1987, under charter and title of the former. The merged bank at date of merger had	60,605,000

* * *

FIRST UNION NATIONAL BANK OF FLORIDA,
Jacksonville, Florida, and Community Bank of Manatee, Bradenton, Florida

Names of banks and type of transaction	Total assets
First Union National Bank of Florida, Jacksonville, Florida (17695), with	$7,956,507,000
and Community Bank of Manatee, Bradenton, Florida, with	59,408,000
merged November 30, 1987, under charter and title of the former. The merged bank at date of merger had	8,015,915,000

COMPTROLLER'S DECISION

On August 28, 1987, application was made to the Comptroller of the Currency for prior authorization to merge First Union National Bank, Jacksonville, Florida (First Union), with Community Bank of Manatee, Bradenton, Florida (Community Bank). The application was based on an agreement completed between the proponents on July 16, 1987.

As of June 30, 1987, Community Bank, a wholly owned subsidiary of Community Banking Corporation, had total deposits of $50 million and operated two offices in Bradenton, Florida. On the same date, First Union had total deposits of $5.5 billion. As a wholly owned subsidiary of First Union Corporation, Charlotte, North Carolina, First Union operates a main office in Jacksonville and numerous branch offices throughout the state.

Community Bank's service area and the relevant geographic market for the proposal consists of Bradenton and the immediately surrounding area As previously noted, First Union operates numerous offices throughout Florida including three located in Bradenton. Accordingly, First Union and Community Bank are direct competitors in the defined relevant geographic market, and their combination would result in the elimination of some direct competition. The two banks, however, compete in a market which is dominated by much larger competitors, including three of the largest banking companies in Florida. Within the defined relevant geographic market, nine banks compete for approximately $1.5 billion in deposits. First Union and Community Bank are the seventh and eighth largest competitors, accounting for 4.7 and 3.6 percent of market deposits respectively Upon consummation of the transaction, the resultant bank will remain as the market's seventh largest competitor, and market concentration will not be changed appreciably In our view, any anticompetitive effects of the proposal are mitigated by the number and size of other competitors in the market. For the reasons noted, approval of the application will not be significantly adverse to competition

The Bank Merger Act [12 U.S.C. 1828(c)(5)] requires this Office to consider ". . . the financial and managerial resources and future prospects of the existing and proposed institutions and the convenience and needs of the community to be served." The financial and managerial resources and future prospects of both banks are considered satisfactory. The future prospects of the proponents, individually and combined, are considered favorable and the resulting bank is expected to meet the convenience and needs of the community to be served.

A review of the record of this application and other information available to this Office as a result of its regulatory responsibilities revealed no evidence that the applicants' records of helping to meet the credit needs of their communities, including low and moderate income neighborhoods, are less than satisfactory.

We have analyzed this proposal pursuant to the Bank Merger Act, 12 U.S.C. 1828(c), and find that it will not significantly lessen competition in any relevant market. Other factors considered in evaluating this proposal are satisfactory. Accordingly, the application is approved.

October 28, 1987

SUMMARY OF REPORT BY ATTORNEY GENERAL

We have reviewed this proposed transaction and conclude that it would not have a significantly adverse effect on competition.

* * *

NATIONAL BANK OF DETROIT,
Detroit, Michigan, and NBD Troy Bank, National Association, Troy, Michigan

Names of banks and type of transaction	*Total assets*
National Bank of Detroit, Detroit, Michigan (13671), with	$14,840,288,000
and NBD Troy Bank, National Association, Troy, Michigan (16554), with	87,490,000
merged November 30, 1987, under charter and title of the former. The merged bank at date of merger had	14,927,778,000

* * *

FIRST CITY NATIONAL BANK OF EL PASO,
El Paso, Texas, and First City Bank-East, National Association, El Paso, Texas, and First City Bank-West, N.A., El Paso, Texas

Names of banks and type of transaction	*Total assets*
First City National Bank of El Paso, El Paso, Texas (14581), with	$ 333,000,000
and First City Bank-East, National Association, El Paso, Texas (17975), with	40,000,000
and First City Bank-West, N.A., El Paso, Texas (16762), with	40,000,000
merged December 1, 1987, under charter and title of the First City National Bank of El Paso. The merged bank at date of merger had	411,000,000

* * *

FIRST UNION NATIONAL BANK OF GEORGIA,
Atlanta, Georgia, and Bank of Screven County, Sylvania, Georgia, and Farmers and Merchants Bank, Pine Mountain, Georgia, and Central Bank of Georgia, Macon, Georgia, and First Union Bank of Augusta Company, Augusta, Georgia, and First Union National Bank of Columbus, Columbus, Georgia, and Bank of Waynesboro, Waynesboro, Georgia

Names of banks and type of transaction	*Total assets*
First Union National Bank of Georgia, Atlanta, Georgia (21161), with	$1,112,324,000
and Bank of Screven County, Sylvania, Georgia, with	43,732,000
and Farmers and Merchants Bank, Pine Mountain, Georgia, with	31,822,000
and Central Bank of Georgia, Macon, Georgia, with	66,054,000
and First Union Bank of Augusta Company, Augusta, Georgia, with	824,245,000
and First Union National Bank of Columbus, Columbus, Georgia (2338), with	422,789,000
and Bank of Waynesboro, Waynesboro, Georgia, with	41,553,000
merged December 1, 1987, under charter and title of First Union National Bank of Georgia, Atlanta, Georgia. The merged bank at date of merger had	3,762,880,000

* * *

NORWEST BANK SIOUX CITY, NATIONAL ASSOCIATION,
Sioux City, Iowa, and The Toy National Bank of Sioux City, Sioux City, Iowa

Names of banks and type of transaction	*Total assets*
Norwest Bank Sioux City, National Association, Sioux City, Iowa (5022), with	$ 133,413,000
and The Toy National Bank of Sioux City, Sioux City, Iowa (10139), with	147,682,000
merged December 1, 1987, under charter and title of the former. The merged bank at date of merger had	281,753,000

COMPTROLLER'S DECISION

On March 23, 1987, application was made to the Office of the Comptroller of the Currency for prior approval for Norwest Bank Sioux City, National Association, Sioux City, Iowa (Norwest), to purchase certain of the assets and assume certain of the liabilities of The Toy National Bank, Sioux City, Iowa (Toy). This application was based on an agreement finalized between the proponents on March 5, 1987.

As of January 31, 1987, Norwest, a wholly owned subsidiary of Norwest Corporation, had total deposits of $115 million and operated four offices. Norwest Corporation, with total deposits of approximately $21 billion, is the second largest banking organization in Iowa and operates 70 commercial banks in seven midwestern states. On the same date, Toy had total deposits of $135 million and operated four offices.

The relevant geographic market for this proposal is the area including and immediately surrounding Sioux City, where both proponents operate and derive the bulk of their deposits. Within the relevant market, eleven banks and four thrift institutions operate 27 offices and hold total deposits of approximately $1 billion. Norwest and Toy rank fifth and fourth, respectively. The resulting institution would become the second largest depository with approximately 24 percent of market deposits. The Office finds that while the proposed purchase and assumption would eliminate some exisitng competition, any adverse competitive effects would be mitigated by the market presence of a number of other banking alternatives.

The Bank Merger Act requires this Office to consider ". . . the financial and managerial resources and future prospects of the existing and proposed institutions and the convenience and needs of the community to be served." We find the financial and managerial resources of Norwest and Toy do not raise concerns that would cause the application to be disapproved. The future prospects of the resulting bank are considered favorable, as are the effects of the proposal on the convenience and needs of the community to be served.

A review of the record of this application and other information available to this Office as a result of its regulatory responsibilities revealed no evidence that the applicants' records of helping to meet the credit needs of their communities, including low and moderate income neighborhoods, are less than satisfactory.

We have analyzed this proposal pursuant to the Bank Merger Act, 12 U.S.C. 1828(c), and find that it will not significantly lessen competition in any relevant market. Other factors considered in evaluating this proposal are satisfactory. Accordingly, the application is approved, subject to the conditions noted in a separate communication to Norwest.

July 27, 1987

SUMMARY OF REPORT BY ATTORNEY GENERAL

We have reviewed this proposed transaction and conclude that it would not have a significantly adverse effect on competition.

* * *

BANK SOUTH, NATIONAL ASSOCIATION,
Atlanta, Georgia, and First Bank of Conyers, Conyers, Georgia

Names of banks and type of transaction	*Total assets*
Bank South, National Association, Atlanta, Georgia (9617), with	$2,852,698,000
and First Bank of Conyers, Conyers, Georgia, with	61,093,000
merged December 3, 1987, under charter and title of the former. The merged bank at date of merger had	3,181,258,000

* * *

FIRST NATIONAL BANK OF WEATHERFORD,
Weatherford, Oklahoma, and The Farmers National Bank of Cordell, Cordell, Oklahoma

Names of banks and type of transaction	Total assets
First National Bank of Weatherford, Weatherford, Oklahoma (15407), with	$ 53,840,000
and The Farmers National Bank of Cordell, Cordell, Oklahoma (9968), with	62,300,000
merged December 3, 1987, under charter and title of the former. The merged bank at date of merger had	NA

* * *

SECURITY NATIONAL BANK OF SUPERIOR,
Superior, Nebraska, and State Bank of Jansen, Jansen, Nebraska

Names of banks and type of transaction	Total assets
Security National Bank of Superior, Superior, Nebraska (14083), with	$ 33,433,000
and State Bank of Jansen, Jansen, Nebraska, with	5,010,000
merged December 3, 1987, under charter and title of the former. The merged bank at date of merger had	NA

* * *

FIRST NATIONAL BANK OF CENTRAL JERSEY,
Bridgewater, New Jersey, and The Peoples National Bank of Central Jersey, Piscataway, New Jersey

Names of banks and type of transaction	Total assets
First National Bank of Central Jersey, Bridgewater, New Jersey (3866), with	$ 824,038,000
and The Peoples National Bank of Central Jersey, Piscataway, New Jersey (3697), with	234,223,000
merged December 4, 1987, under charter and title of the former. The merged bank at date of merger had	1,047,129,000

* * *

MBANK DALLAS, NATIONAL ASSOCIATION,
Dallas, Texas, and MBank Lincoln Centre, National Association, Dallas, Texas, and MBank Market Center, Dallas, Texas, and MBank Preston, Dallas, Texas, and MBank Irving, Irving, Texas, and MBank Las Colinas, National Association, Irving, Texas

Names of banks and type of transaction	Total assets
MBank Dallas, National Association, Dallas, Texas (13743), with	$7,431,603,000
and MBank Lincoln Centre, National Association, Dallas, Texas (17454), with	99,088,000
and MBank Market Center, Dallas, Texas, with	129,595,000
and MBank Preston, Dallas, Texas, with	662,501,000
and MBank Irving, Irving, Texas, with	60,693,000
and MBank Las Colinas, National Association, Irving, Texas (18189), with	53,222,000
merged December 4, 1987, under charter and title of MBank Dallas, National Association. The merged bank at date of merger had	8,160,940,000

* * *

COMMUNITY NATIONAL BANK,
Austin, Texas, and Heritage National Bank, Austin, Texas

Names of banks and type of transaction	Total assets
Community National Bank, Austin, Texas (15691), with	$ 72,218,000
and Heritage National Bank, Austin, Texas (18117), with	53,227,000
merged December 10, 1987, under charter and title of the former. The merged bank at date of merger had	NA

* * *

NATIONAL BANK OF COMMERCE OF LAKE CHARLES,
Lake Charles, Louisiana, and American Bank of Commerce, Lake Charles, Louisiana

Names of banks and type of transaction	*Total assets*
National Bank of Commerce of Lake Charles, Lake Charles, Louisiana (17663), with	$ 32,096,000
and American Bank of Commerce, Lake Charles, Louisiana, with	35,450,000
merged December 10, 1987, under charter and title of the former. The merged bank at date of merger had	NA

* * *

MBANK HOUSTON, NATIONAL ASSOCIATION,
Houston, Texas, and MBank San Felipe, National Association, Houston, Texas, and MBank West Oaks, National Association, Houston, Texas, and MBank Westbury, National Association, Houston, Texas, and MBank Westchase, National Association, Houston, Texas, and MBank Long Point, National Association, Houston, Texas, and MBank Memorial, National Association, Houston, Texas, and MBank Clear Lake, National Association, Houston, Texas, and MBank Copperfield, National Association, Houston, Texas, and MBank Greenspoint, National Association, Houston, Texas, and MBank Greenway, Houston, Texas, and MBank Gulf Freeway, National Association, Houston, Texas, and MBank Houston Southwest, Houston, Texas

Names of banks and type of transaction	*Total assets*
MBank Houston, National Association, Houston, Texas (15528), with	$4,753,895,000
and MBank San Felipe, National Association, Houston, Texas (16966), with	133,865,000
and MBank West Oaks, National Association, Houston, Texas (16967), with	18,305,000
and MBank Westbury, National Association, Houston, Texas (14858), with	76,863,000
and MBank Westchase, National Association, Houston, Texas (16039), with	91,935,000
and MBank Long Point, National Association, Houston, Texas (14777), with	117,808,000
and MBank Memorial, National Association, Houston, Texas (15896), with	133,865,000
and MBank Clear Lake, National Association, Houston, Texas (16733), with	47,253,000
and MBank Copperfield, National Association, Houston, Texas (17172), with	24,157,000
and MBank Greenspoint, National Association, Houston, Texas (15802), with	60,362,000
and MBank Greenway, Houston, Texas, with	189,153,000
and MBank Gulf Freeway, National Association, Houston, Texas (14890), with	95,809,000
and MBank Houston Southwest, Houston, Texas, with	40,891,000
merged December 11, 1987, under charter and title of MBank Houston, National Association, Houston, Texas. The merger bank at date of merger had	5,397,587,000

* * *

NATIONAL BANK OF ALASKA,
Anchorage, Alaska, and First Interstate Bank of Alaska, Anchorage, Alaska

Names of banks and type of transaction	*Total assets*
National Bank of Alaska, Anchorage, Alaska (14651), with	$1,244,679,000
and First Interstate Bank of Alaska, Anchorage, Alaska, with	367,655,000
merged December 11, 1987, under charter and title of the former. The merged bank at date of merger had	NA

* * *

ASSOCIATED BANK, NATIONAL ASSOCIATION,
Appleton, Wisconsin, and Associated Neenah West Bank, National Association, Neenah, Wisconsin

Names of banks and type of transaction	*Total assets*
Associated Bank, National Association, Appleton, Wisconsin (1602), with	$ 213,675,000
and Associated Neenah West Bank, National Association, Neenah, Wisconsin (15599), with	28,638,000
merged December 17, 1987, under charter and title of the former. The merged bank at date of merger had	242,286,000

* * *

UNITED NATIONAL BANK,
Dallas, Texas, and USBank, Denton, Texas

Names of banks and type of transaction	Total assets
United National Bank, Dallas, Texas (18370), with	$ 36,004,000
and USBank, Denton, Texas, with	86,046,000
merged December 17, 1987, under charter and title of the former. The merged bank at date of merger had	NA

* * *

THE TEXARKANA NATIONAL BANK,
Texarkana, Texas, and Liberty Eylau State Bank, Bowie County, Texas

Names of banks and type of transaction	Total assets
The Texarkana National Bank, Texarkana, Texas (3785), with	$ 184,605,000
and Liberty Eylau State Bank, Bowie County, Texas, with	18,830,000
merged December 18, 1987, under charter and title of the former. The merged bank at date of merger had	186,127,000

* * *

THE TEXARKANA NATIONAL BANK,
Texarkana, Texas, and Texarkana National Bank-Twin City, Texarkana, Texas, and Texarkana National Bank-Central Plaza, Texarkana, Texas

Names of banks and type of transaction	Total assets
The Texarkana National Bank, Texarkana, Texas (3785), with	$ 180,920,000
and Texarkana National Bank-Twin City, Texarkana, Texas (20941), with	22,619,000
and Texarkana National Bank-Central Plaza, Texarkana, Texas (18453), with	22,795,000
merged December 18, 1987, under charter and title of The Texarkana National Bank. The merged bank at date of merger had	237,888,000

* * *

THE MATEWAN NATIONAL BANK,
Matewan, West Virginia, and Gilbert Bank and Trust Company, Gilbert, West Virginia, and American National Bank, Logan, West Virginia

Names of banks and type of transaction	Total assets
The Matewan National Bank, Matewan, West Virginia (10370), with	$ 104,500,000
and Gilbert Bank and Trust Company, Gilbert, West Virginia, with	58,764,000
and American National Bank, Logan, West Virginia (17073), with	18,736,000
merged December 21, 1987, under charter and title of The Matewan National Bank. The merged bank at date of merger had	190,383,000

COMPTROLLER'S DECISION

On September 10, 1987, application was made to the Comptroller of the Currency for prior authorization to merge American National Bank, Logan, West Virginia (ANB) and Gilbert Bank and Trust Company, Gilbert, West Virginia (GBT) with and into The Matewan National Bank, Matewan, West Virginia (Matewan) under the charter and title of the latter. The application was based on an agreement entered into by the applicant banks on August 13, 1987.

As of June 30, 1987, ANB and GBT had $19 million and $59 million in total deposits respectively. Both banks are subsidiaries of Guyan Bancshares, Inc., a two-bank holding company headquartered in Gilbert, West Virginia. As of the same date, Matewan, a wholly owned subsidiary of Matewan Bancshares, Inc., Matewan, West Virginia, had total deposits of $91 million.

ANB's service area consists of Logan, West Virginia, and the immediately surrounding area. GBT's service area consists of Gilbert, West Virginia, and the immediately surrounding area. The service areas of ANB and GBT comprise the relevant geographic market for the proposal. Matewan's service area consists of Matewan, West Virginia, and the immediately surrounding area including portions of Martin and Pike counties in Kentucky.

An analysis of deposit accounts prepared by the applicants indicates that their primary service areas, i.e., the areas from which they derive 75 to 80 percent of the deposits, although somewhat contiguous, are separate and distinct. Accordingly, approval of the transaction will not be significantly adverse to competition.

The Bank Merger Act, 12 U.S.C. 1828(c)(5), requires this Office to consider ". . . the financial and managerial resources and future prospects of the existing and proposed institutions and the convenience and needs of the community to be served." The financial and managerial resources and future prospects of the three banks are considered satisfactory. The future prospects of the proponents, individually and combined, are considered favorable and the resulting bank is expected to meet the convenience and needs of the community to be served.

A review of the record of this application and other information available to this Office as a result of its regulatory responsibilities revealed no evidence that the applicants' records of helping to meet the credit needs of their communities, including low and moderate income neighborhoods, are less than satisfactory.

We have analyzed this proposal pursuant to the Bank Merger Act, 12 U.S.C. 1828(c), and find that it will not significantly lessen competition in any relevant market. Other factors considered in evaluating this proposal are satisfactory. Accordingly, the application is approved.

November 20, 1987

SUMMARY OF REPORT BY ATTORNEY GENERAL

We have reviewed this proposed transaction and conclude that it would not have a significantly adverse effect on competition.

* * *

FIRST NATIONAL BANK,
Beresford, South Dakota, and State Bank of Waubay, Waubay, South Dakota

Names of banks and type of transaction	*Total assets*
First National Bank, Beresford, South Dakota (10813), with	$ 85,963,000
and State Bank of Waubay, Waubay, South Dakota, with	7,263,000
merged December 30, 1987, under charter and title of the former. The merged bank at date of merger had	93,226,000

* * *

FIRST MIDWEST BANK/QUINCY, NATIONAL ASSOCIATION,
Quincy, Illinois, and First Midwest Bank/Hancock County, National Association, Carthage, Illinois

Names of banks and type of transaction	*Total assets*
First Midwest Bank/Quincy, National Association, Quincy, Illinois (14564), with	$ 145,983,000
and First Midwest Bank/Hancock County, National Association, Carthage, Illinois (14134), with	27,867,000
merged December 31, 1987, under charter of the former and title "First Midwest Bank/M.C., National Association." The merged bank at date of merger had	173,937,000

* * *

FIRST NATIONAL BANK,
Covington, Louisiana, and First National Bank of Riverlands, Laplace, Louisiana, and First Industrial Bank & Trust Company, Metairie, Louisiana, and Century Bank, New Orleans, Louisiana

Names of banks and type of transaction	*Total assets*
First National Bank, Covington, Louisiana (14989), with	$ 307,351,000
and First National Bank of Riverlands, Laplace, Louisiana (15279), with	48,347,000
and First Industrial Bank & Trust Company, Metairie, Louisiana, with	44,484,000
and Century Bank, New Orleans, Louisiana, with	50,033,000
merged December 31, 1987, under charter and title of the First National Bank. The merged bank at date of merger had	434,835,000

* * *

FIRST NATIONAL BANK OF MINNEAPOLIS,
Minneapolis, Minnesota, and First Bank Robbinsdale, National Association, Robbinsdale, Minnesota, and First Bank National Association-Lake, Minneapolis, Minnesota, and First Plymouth National Bank, Minneapolis, Minnesota, and First Bank East, National Association, St. Paul, Minnesota, and First Bank Grand, National Association, St. Paul, Minnesota, and First Bank Security, National Association, St. Paul, Minnesota, and First Bank White Bear Lake, National Association, White Bear Lake, Minnesota, and The First National Bank of Saint Paul, St. Paul, Minnesota, and First National Bank of Burnsville, Burnsville, Minnesota, and First Edina National Bank, Edina, Minnesota, and First Southdale National Bank of Edina, Edina, Minnesota, and First National Bank of Hopkins, Hopkins, Minnesota, and First Northtown National Bank, Blaine, Minnesota

Names of banks and type of transaction	*Total assets*
First National Bank of Minneapolis, Minneapolis, Minnesota (710), with	$10,779,065,000
and First Bank Robbinsdale, National Association, Robbinsdale, Minnesota (20589), with	179,460,000
and First Bank National Association-Lake, Minneapolis, Minnesota (13096), with	353,783,000
and First Plymouth National Bank, Minneapolis, Minnesota (15697), with	46,504,000
and First Bank East, National Association, St. Paul, Minnesota (20595), with	309,341,000
and First Bank Grand, National Association, St. Paul, Minnesota (20594), with	159,068,000
and First Bank Security, National Association, St. Paul, Minnesota (20591), with	131,275,000
and First Bank White Bear Lake, National Association, White Bear Lake, Minnesota (20588), with	125,717,000
and The First National Bank of Saint Paul, St. Paul, Minnesota (203), with	6,106,035,000
and First National Bank of Burnsville, Burnsville, Minnesota (16650), with	56,652,000
and First Edina National Bank, Edina, Minnesota, (14713), with	354,690,000
and First Southdale National Bank of Edina, Edina, Minnesota (14790), with	333,662,000
and First National Bank of Hopkins, Hopkins, Minnesota (7958), with	350,219,000
and First Northtown National Bank, Blaine, Minnesota (15986), with	77,233,000
merged December 31, 1987, under charter 710 and title of "First Bank, National Association," Minneapolis, Minnesota. The merged bank at date of merger had	18,867,058,000

* * *

FIRST REPUBLICBANK HOUSTON, NATIONAL ASSOCIATION,
Houston, Texas, and InterFirst Bank Tomball, Tomball, Texas, and InterFirst Bank Pasadena, Pasadena, Texas, and First RepublicBank Kingwood, National Association, Kingwood, Texas, and First RepublicBank SW Houston, National Association, Bellaire, Texas, and InterFirst Bank Baytown, Baytown, Texas, and First RepublicBank Nassau Bay, National Association, Houston, Texas, and First RepublicBank San Felipe, National Association, Houston, Texas, and InterFirst Bank East Houston, Houston, Texas, and InterFirst Bank Fannin, Houston, Texas, and InterFirst Bank Greenspoint, Houston, Texas, and InterFirst Bank Post Oak, Houston, Texas, and First RepublicBank Braes Bayou, National Association, Houston, Texas, and First RepublicBank Eldridge, National Association, Houston, Texas, and RepublicBank Spring Branch, Houston, Texas

Names of banks and type of transaction	*Total assets*
First RepublicBank Houston, National Association, Houston, Texas (9353), with	$ 2,800,000,000
and InterFirst Bank Tomball, Tomball, Texas, with	94,000,000
and InterFirst Bank Pasadena, Pasadena, Texas, with	118,000,000
and First RepublicBank Kingwood, National Association, Kingwood, Texas (17049), with	52,000,000
and First RepublicBank SW Houston, National Association, Bellaire, Texas (17142), with	148,000,000
and InterFirst Bank Baytown, Baytown, Texas, with	99,000,000
and First RepublicBank Nassau Bay, National Association, Houston, Texas (15188), with	140,000,000
and First RepublicBank San Felipe, National Association, Houston, Texas (16096), with	156,000,000
and InterFirst Bank East Houston, Houston, Texas, with	174,000,000
and InterFirst Bank Fannin, Houston, Texas, with	376,000,000
and InterFirst Bank Greenspoint, Houston, Texas, with	97,000,000
and InterFirst Bank Post Oak, Houston, Texas, with	128,000,000
and First RepublicBank Braes Bayou, National Association, Houston, Texas (16602), with	73,000,000
and First RepublicBank Eldridge, National Association, Houston, Texas (18348), with	41,000,000)
and RepublicBank Spring Branch, Houston, Texas, with	208,000,000
merged December 31, 1987, under charter and title of First RepublicBank Houston, National Association. The merged bank at date of merger had	4,342,000,000

* * *

RAINIER NATIONAL BANK,
Seattle, Washington, and The Washington Bank, McCleary, Washington

Names of banks and type of transaction	*Total assets*
Rainier National Bank, Seattle, Washington (4375), with	$ 8,137,017,000
and The Washington Bank, McCleary, Washington, with	11,396,000
merged December 31, 1987, under charter and title of the former. The merged bank at date of merger had	8,137,017,000

* * *

SOUTHEAST BANK, NATIONAL ASSOCIATION,
Miami, Florida, and Southeast Bank of Chipley, Chipley, Florida, and Southeast Bank of Madison County, National Association, Madison, Florida, and Southeast Bank of Perry, National Association, Perry, Florida

Names of banks and type of transaction	*Total assets*
Southeast Bank, National Association, Miami, Florida (15638), with	$12,124,642,000
and Southeast Bank of Chipley, Chipley, Florida, with	30,792,000
and Southeast Bank of Madison County, National Association, Madison, Florida (15571), with	32,499,000
and Southeast Bank of Perry, National Association, Perry, Florida (14692), with	34,809,000
merged December 31, 1987, under charter and title of Southeast Bank, National Association, Miami, Florida. The merged bank at date of merger had	12,192,204,000

* * *

TRUSTMARK NATIONAL BANK,
Jackson, Mississippi, and The Commercial National Bank and Trust Company of Laurel, Laurel, Mississippi

Names of banks and type of transaction	*Total assets*
Trustmark National Bank, Jackson, Mississippi (10523), with	$ 2,359,324,000
and The Commercial National Bank and Trust Company of Laurel, Laurel, Mississippi (11898), with	157,353,000
merged December 31, 1987, under charter and title of the former. The merged bank at date of merger had	2,516,677,000

COMPTROLLER'S DECISIONS

On August 14, 1987, application was made to the Office of the Comptroller of the Currency to grant prior written approval for Commercial National Bank and Trust Company, Laurel, Mississippi (LNB) to merge with and into Trustmark National Bank, Jackson, Mississippi (Trustmark) under the charter and title of the latter.

As of June 30, 1987, LNB, an independent bank, had total deposits of approximately $141 million. LNB operates a main office and 5 branches in Laurel, Mississippi. As of the same date, Trustmark had total deposits of approximately $2 billion. Trustmark is a wholly owned subsidiary of First Capital Corporation, a one bank holding company headquartered in Jackson, and operates numerous banking offices throughout Mississippi.

LNB's service area and relevant geographic market for the proposal consists of Laurel, Mississippi, and the immediately surrounding area. Trustmark's service area includes Desoto County, Greenwood, and Greenville in northern Mississippi and a large portion of southern Mississippi extending from Jackson south to McComb and then due east to Hattiesburg. A review of the markets served by the two banks indicates that their primary service areas, i.e., the areas from which they derive 75 to 80 percent of their deposits, although somewhat contiguous, are separate and distinct. The closest offices of the two banks are approximately 30 miles apart. What little overlap exists between their markets is not significant. Accordingly, approval of the application will not be significantly adverse to competition.

The Bank Merger Act, 12 U.S.C. 1828(c)(5), requires this Office to consider ". . . the financial and managerial resources and future prospects of the existing and proposed institutions and the convenience and needs of the community to be served." The financial and managerial resources and future prospects of both banks are considered satisfactory. The future prospects of the proponents, individually and combined, are considered favorable and the resulting bank is expected to meet the convenience and needs of the community to be served.

A review of the record of this application and other information available to this Office as a result of its regulatory responsibilities revealed no evidence that the applicants' records of helping to meet the credit needs of their communities, including low and moderate income neighborhoods, are less than satisfactory

We have analyzed this proposal pursuant to the Bank Merger Act, 12 U.S.C. 1828(c), and find that it will not significantly lessen competition in the relevant market. Other factors considered in evaluating this proposal are satisfactory. Accordingly, the application is approved.

November 19, 1987

SUMMARY OF REPORT BY ATTORNEY GENERAL

We have reviewed this proposed transaction and conclude that it would not have a significantly adverse effect on competition.

* * *

ZIONS FIRST NATIONAL BANK,
Mesa, Arizona, and The Camel Bank, Incorporated, Phoenix, Arizona

Names of banks and type of transaction	*Total assets*
Zions First National Bank, Mesa, Arizona (21383), with	$ 29,779,000
and The Camel Bank, Incorporated, Phoenix, Arizona, with	33,233,000
merged December 31, 1987, under charter of the former and title "Zions First National Bank of Arizona." The merged bank at date of merger had	63,012,000

COMPTROLLER'S DECISION

On July 31, 1987, application was made to the Office of the Comptroller of the Currency pursuant to the Bank Merger Act, 12 U.S.C. 1828(c), for prior authorization to merge The Camel Bank, Inc., Phoenix, Arizona (Camel), into Zions First National Bank of Arizona, Mesa, Arizona (Zions). The application is based on an agreement finalized between Zions and Camel on June 22, 1987.

Zions, a wholly owned subsidiary of Zions Bancorporation, had total assets of $33 million and total deposits of $29 million as of June 30, 1987, and operated three offices in Mesa and one in Phoenix.

Camel had total assets of $27 million and total deposits of $24 million as of June 30, 1987, and operates only its main office in Phoenix.

The relevant geographic market for this proposal consists of the city of Phoenix where Camel operates its only office. Although Zions operates one office within the Phoenix market, both banks have less than 1/2 of 1 percent of the market's deposits. The resulting bank will be the fourteenth largest of 40 depository institutions with 254 offices remaining in this highly competitive market. Consequently, consummation of this proposal will not have a significantly adverse effect on competition.

The Bank Merger Act requires this Office to consider the financial and managerial resources and future prospects of the existing and proposed institutions and the convenience and needs of the community to be served." We find the financial and managerial resources of both banks do not raise concerns that would cause the application to be disapproved. The future prospects of the resulting bank are considered favorable, as are the effects of the proposal on the convenience and needs of the community to be served.

A review of the record of this application and other information available to this Office as a result of its regulatory responsibilities revealed no evidence that the applicants' records of helping to meet the credit needs of their communities, including low and moderate income neighborhoods, are less than satisfactory.

We have analyzed this proposal pursuant to the Bank Merger Act, 12 U.S.C. 1828(c), and find that it will not significantly lessen competition in any relevant market. Other factors considered in evaluating this proposal are satisfactory. Accordingly, the application is approved.

December 1, 1987

SUMMARY OF REPORT BY ATTORNEY GENERAL

We have reviewed this proposed transaction and conclude that it would not have a significantly adverse effect on competition.

* * *

Tables

NOTE: Statistical tables are produced by the Information Systems and Technology Division and structural tables are produced by the Bank Organization and Structure Department.

Comptrollers of the Currency, 1863 to present

No.	Name	Date of appointment	Date of resignation	State
1	McCulloch, Hugh	May 9, 1863	Mar 8, 1865	Indiana
2	Clarke, Freeman	Mar 21, 1865	July 24, 1866	New York
3	Hulburd, Hiland R.	Feb. 1, 1867	Apr 3, 1872	Ohio
4	Knox, John Jay	Apr. 25, 1872	Apr 30, 1884	Minnesota
5	Cannon, Henry W	May 12, 1884	Mar 1 1886	Minnesota
6	Trenholm, William L.	Apr. 20, 1886	Apr 30, 1889	South Carolina
7	Lacey, Edward S.	May 1, 1889	June 30, 1892	Michigan
8	Hepburn, A. Barton	Aug 2, 1892	Apr. 25, 1893	New York
9	Eckels, James H.	Apr 26, 1893	Dec. 31, 1897	Illinois
10	Dawes, Charles G	Jan. 1, 1898	Sept. 30, 1901	Illinois.
11	Ridgely, William Barret	Oct 1, 1901	Mar 28, 1908	Illinois
12	Murray, Lawrence O.	Apr. 27, 1908	Apr. 27, 1913	New York
13	Williams, John Skelton	Feb. 2, 1914	Mar. 2, 1921	Virginia
14	Crissinger, D. R.	Mar. 17, 1921	Apr. 30, 1923	Ohio.
15	Dawes, Henry M.	May 1, 1923	Dec. 17, 1924	Illinois.
16	McIntosh, Joseph W.	Dec. 20, 1924	Nov. 20, 1928	Illinois
17	Pole, John W.	Nov. 21, 1928	Sept. 20, 1932	Ohio.
18	O'Connor, J. F. T.	May 11, 1933	Apr. 16, 1938	California
19	Delano, Preston	Oct 24, 1938	Feb. 15, 1953	Massachusetts
20	Gidney, Ray M.	Apr. 16, 1953	Nov. 15, 1961	Ohio.
21	Saxon, James J.	Nov. 16, 1961	Nov. 15, 1966	Illinois.
22	Camp, William B.	Nov. 16, 1966	Mar. 23, 1973	Texas
23	Smith, James E.	July 5, 1973	July 31, 1976	South Dakota
24	Heimann, John G.	July 21, 1977	May 15, 1981	New York
25	Conover, C. T.	Dec. 16, 1981	May 4, 1985	California
26	Clarke, Robert L.	Dec. 2, 1985		Texas.

Senior Deputy and Deputy Comptrollers of the Currency, 1863 to 1987

No	Name	Dates of tenure		State
1	Howard, Samuel T	May 9, 1863	Aug 1, 1865	New York
2	Hulburd, Hiland R	Aug 1, 1865	Jan. 31, 1867	Ohio.
3	Knox, John Jay	Mar 12, 1867	Apr. 24, 1872	Minnesota
4	Langworthy, John S	Aug 8, 1872	Jan 3, 1886	New York
5	Snyder, V P	Jan. 5, 1886	Jan. 3, 1887	New York
6	Abrahams, J D	Jan. 27, 1887	May 25, 1890	Virginia
7	Nixon, R M	Aug. 11, 1890	Mar 16, 1893	Indiana.
8	Tucker, Oliver P	Apr. 7, 1893	Mar. 11, 1896	Kentucky.
9	Coffin, George M	Mar. 12, 1896	Aug 31, 1898	South Carolina.
10	Murray, Lawrence O.	Sept. 1, 1898	June 29, 1899	New York.
11	Kane, Thomas P	June 29, 1899	Mar. 2, 1923	District of Columbia.
12	Fowler, Willis J.	July 1, 1908	Feb. 14, 1927	Indiana.
13	McIntosh, Joseph W	May 21, 1923	Dec. 19, 1924	Illinois.
14	Collins, Charles W	July 1, 1923	June 30, 1927	Illinois.
15	Stearns, E W	Jan. 6, 1925	Nov. 30, 1928	Virginia.
16	Awalt, F. G	July 1, 1927	Feb. 15, 1936	Maryland
17	Gough, E. H	July 6, 1927	Oct. 16, 1941	Indiana.
18	Proctor, John L.	Dec. 1, 1928	Jan. 23, 1933	Washington.
19	Lyons, Gibbs	Jan. 24, 1933	Jan. 15, 1938	Georgia.
20	Prentiss, Jr., William	Feb. 24, 1936	Jan. 15, 1938	Georgia.
21	Diggs, Marshall R.	Jan. 16, 1938	Sept. 30, 1938	Texas.
22	Oppegard, G. J.	Jan. 16, 1938	Sept. 30, 1938	California
23	Upham, C. B.	Oct. 1, 1938	Dec. 31, 1948	Iowa.
24	Mulroney, A. J.	May 1, 1939	Aug. 31, 1941	Iowa.
25	McCandless, R. B.	July 7, 1941	Mar. 1, 1951	Iowa.
26	Sedlacek, L. H.	Sept. 1, 1941	Sept. 30, 1944	Nebraska.
27	Robertson, J. L	Oct. 1, 1944	Feb. 17, 1952	Nebraska.
28	Hudspeth, J. W	Jan. 1, 1949	Aug. 31, 1950	Texas.
29	Jennings, L. A.	Sept. 1, 1950	May 16, 1960	New York.
30	Taylor, W. M.	Mar. 1, 1951	Apr. 1, 1962	Virginia.
31	Garwood, G. W	Feb. 18, 1952	Dec. 31, 1962	Colorado.
32	Fleming, Chapman C.	Sept. 15, 1959	Aug 31, 1962	Ohio.
33	Haggard, Holis S.	May 16, 1960	Aug 3, 1962	Missouri.
34	Camp, William B.	Apr. 2, 1962	Nov. 15, 1966	Texas.
35	Redman, Clarence B.	Aug 4, 1962	Oct. 26, 1963	Connecticut.
36	Watson, Justin T.	Sept. 3, 1962	July 18, 1975	Ohio.
37	Miller, Dean E.	Dec. 23, 1962	. . . .	Iowa.
38	DeShazo, Thomas G	Jan. 1, 1963	Mar. 3, 1978	Virginia.
39	Egertson, R. Coleman	July 13, 1964	June 30, 1966	Iowa.
40	Blanchard, Richard J.	Sept. 1, 1964	Sept. 26, 1975	Massachusetts.
41	Park, Radcliffe	Sept. 1, 1964	June 1, 1967	Wisconsin.
42	Faulstich, Albert J.	July 19, 1965	Oct. 26, 1974	Louisiana.
43	Motter, David C.	July 1, 1966	Sept. 20, 1981	Ohio.
44	Gwin, John D.	Feb. 21, 1967	Dec. 31, 1974	Mississippi.
45	Howland, Jr., W. A.	July 5, 1973	Mar. 27, 1978	Georgia.
46	Mullin, Robert A.	July 5, 1973	Sept. 8, 1978	Kansas.
47	Ream, Joseph M.	Feb. 2, 1975	June 30, 1978	Pennsylvania.
48	Bloom, Robert	Aug. 31, 1975	Feb. 28, 1978	New York.
49	Chotard, Richard D.	Aug. 31, 1975	Nov. 25, 1977	Missouri.
50	Hall, Charles B.	Aug. 31, 1975	Sept. 14, 1979	Pennsylvania
51	Jones, David H	Aug. 31, 1975	Sept. 20, 1976	Texas.
52	Murphy, C. Westbrook	Aug. 31, 1975	Dec. 30, 1977	Maryland
53	Selby, H. Joe	Aug. 31, 1975	Mar. 15, 1986	Texas.
54	Homan, Paul W	Mar. 27, 1978	Jan. 21, 1983	Nebraska.
55	Keefe, James T	Mar. 27, 1978	Sept. 18, 1981	Massachusetts.
56	Muckenfuss, Cantwell F., III	Mar. 27, 1978	Oct. 1, 1981	Alabama
57	Wood, Billy C.	Nov. 7, 1978	Jan. 16, 1988	Texas.
58	Longbrake, William A.	Nov. 8, 1978	July 9, 1982	Wisconsin
59	Odom, Jr., Lewis G	Mar. 21, 1979	Nov. 16, 1980	Alabama
60	Martin, William E	May 22, 1979	Apr. 4, 1983	Texas.
61	Barefoot, Jo Ann	July 13, 1979	Sept. 5, 1982	Connecticut
62	Lord, Charles E	Apr. 13, 1981	Mar. 31, 1982	Connecticut
63	Bench, Robert R	Mar. 21, 1982	Sept 25, 1987	Massachusetts.
64	Klinzing, Robert R	Mar. 21, 1982	Aug 21, 1983	Connecticut
65	Robertson, William L	Mar 21, 1982	Sept 26, 1986	Texas
66	Arnold, Doyle L	May 2, 1982	May 12, 1984	California
67	Weiss, Steven J	May 2, 1982		Pennsylvania
68	Stephens, Martha B	June 1, 1982	Jan 19, 1985	Georgia
69	Stirnweis, Craig M	Sept 19, 1982	May 1, 1986	Idaho

Senior Deputy and Deputy Comptrollers of the Currency, 1863 to 1987 — continued

No.	Name	Dates of tenure		State
70	Herrmann, Robert J.	Jan. 1, 1983		Illinois
71	Mancusi, Michael A.	Jan. 1, 1983	Feb. 17, 1986	Maryland
72	Marriott, Dean S.	Jan. 1, 1983		Missouri
73	Poole, Clifton A., Jr.	Jan. 1, 1983		North Carolina
74	Taylor, Thomas W.	Jan. 1, 1983		Ohio
75	Boland, Jr., James E.	Feb. 7, 1983	Feb. 15, 1985	Pennsylvania
76	Fisher, Jerry	Apr. 17, 1983		Delaware
77	Patriarca, Michael	July 10, 1983	Aug. 15, 1986	California
78	Wilson, Karen J.	July 17, 1983		New Jersey
79	Winstead, Bobby B.	Mar. 18, 1984		Texas
80	Chew, David L.	May 2, 1984	Feb. 2, 1985	District of Columbia
81	Walter, Judith A.	Apr. 24, 1985		Indiana
82	Maguire, Francis E., Jr.	Jan. 9, 1986		Virginia
83	Kraft, Peter C.	July 20, 1986		California
84	Klinzing, Robert R.	Aug. 11, 1986		Connecticut
85	Hechinger, Deborah S.	Aug. 31, 1986	Sept. 14, 1987	District of Columbia
86	Norton, Gary W.	Sept. 3, 1986		Missouri
87	Shepherd, J. Michael	Jan. 9, 1987		California
88	Rushton, Emory W.	Jan. 21, 1987		South Carolina
89	Fiechter, Jonathan L.	Mar. 4, 1987	Oct. 30, 1987	Pennsylvania
90	Stolte, William J.	Mar. 11, 1987		New Jersey

Changes in the structure of the national banking system, by states, July 1 to December 31, 1987

	In operation June 30 1987	Organized and opened for business	Merged	Voluntary liquidations	Payouts	12 USC 214		In operation Dec 31, 1987
						Converted to state banks	Merged with state banks	
Alabama	55	1	0	0	0	0	1	55
Alaska	5	0	1	0	0	0	1	3
Arizona	16	0	0	0	0	0	1	15
Arkansas	85	0	1	0	0	0	0	84
California	169	6	1	0	1	0	1	172
Colorado	238	0	3	0	0	1	4	230
Connecticut	17	1	0	0	0	0	0	18
Delaware	17	0	0	0	0	0	0	17
District of Columbia	20	1	0	0	0	0	0	21
Florida	164	3	6	0	0	0	1	160
Georgia	58	2	5	0	0	0	0	55
Hawaii	3	0	0	0	0	0	0	3
Idaho	7	0	0	0	0	0	0	7
Illinois	393	2	2	0	0	4	0	389
Indiana	101	0	0	0	0	0	0	101
Iowa	105	0	2	0	0	0	0	103
Kansas	167	1	1	0	0	0	0	167
Kentucky	78	1	0	0	0	0	0	79
Louisiana	64	1	1	0	0	1	1	62
Maine	7	0	0	0	0	0	0	7
Maryland	25	0	0	0	0	0	0	25
Massachusetts	47	0	7	0	0	0	0	40
Michigan	93	4	4	0	0	0	5	88
Minnesota	212	2	14	0	0	0	1	199
Mississippi	30	0	1	0	0	0	0	29
Missouri	103	3	1	0	0	4	2	99
Montana	59	1	0	0	0	1	0	59
Nebraska	117	0	1	0	0	0	0	116
Nevada	6	1	0	0	0	0	0	7
New Hampshire	20	0	0	0	0	0	0	20
New Jersey	67	2	1	0	0	0	0	68
New Mexico	42	0	0	0	0	0	0	42
New York	106	2	0	0	1	0	0	107
North Carolina	16	0	1	0	0	0	0	15
North Dakota	41	0	0	0	0	0	0	41
Ohio	138	0	0	0	0	0	0	138
Oklahoma	209	0	5	0	0	1	1	202
Oregon	8	0	0	0	0	0	0	8
Pennsylvania	174	1	0	0	0	0	2	173
Rhode Island	5	0	0	0	0	0	0	5
South Carolina	21	1	0	0	0	0	0	22
South Dakota	25	0	0	0	0	0	1	24
Tennessee	59	1	1	0	0	0	1	58
Texas	1,011	10	53	0	0	3	8	957
Utah	7	0	0	0	0	0	0	7
Vermont	12	0	0	0	0	0	0	12
Virginia	49	1	0	0	0	0	0	50
Washington	24	0	1	0	0	0	0	23
West Virginia	96	0	1	0	0	0	1	94
Wisconsin	120	2	1	0	0	0	0	121
Wyoming	39	0	0	0	0	0	2	37
Puerto Rico	1	0	0	0	0	0	0	1
United States	4,751	50	115	0	2	15	34	4,635

NOTES Organized and opened for business includes all state banks converted to national banks as well as all newly formed national banks.
The title "merged" is a generic term and includes all mergers, consolidations and purchase and assumptions where the resulting institution is a nationally chartered bank. Also included in this column are immediate FDIC assisted "merger" transactions where the resulting institution is a nationally chartered bank.
Voluntary liquidations include only straight liquidations of national banks. No liquidations pursuant to a purchase and assumption transaction are included in this total. Liquidations resulting from purchase and assumptions are included in the "merged" columns.
Payouts include all failed national banks where FDIC is named receiver and no other depository institution is named as successor.
The title "merged" is a generic term and includes all mergers, consolidations and purchase and assumptions where the resulting institution is a state chartered bank. Also included in this column are immediate FDIC assisted "merger" transactions where the resulting institution is a state chartered bank.

Federal branches and agencies of foreign banks, by state

	Federal branches and agencies—open June 30, 1987	Applications, July 1 to December 31, 1987				Federal branches and agencies opened July 1 to December 31, 1987	Federal branches and agencies closed July 1 to December 31, 1987	Federal branches and agencies—open December 31, 1987
		Received	Approved	Disapproved	Withdrawn			
Total *de novo*	72	1	0	0	0	1	0	73
Federal branch								
California	3	0	0	0	0	0	0	3
District of Columbia	1	0	0	0	0	0	0	1
Illinois	1	0	0	0	0	0	0	1
New York	45	0	0	0	0	1	0	46
Limited federal branch								
California	7	1	0	0	0	0	0	7
District of Columbia	2	0	0	0	0	0	0	2
Illinois	4	0	0	0	0	0	0	4
New York	6	0	0	0	0	0	0	6
Washington	1	0	0	0	0	0	0	1
Federal agency								
Florida	1	0	0	0	0	0	0	1
Louisiana	1	0	0	0	0	0	0	1
Upgrade of limited federal branch to branch								
New York	0	0	1	0	0	0	0	0
Total conversions	13	0	0	0	0	0	0	13
State agency to federal branch								
California	2	0	0	0	0	0	0	2
New York	9	0	0	0	0	0	0	9
State agency to limited federal branch								
California	1	0	0	0	0	0	0	1
New York	1	0	0	0	0	0	0	1

Applications for national bank charters, July 1 to December 31, 1987

	Received	Approved	Denied	Charters issued	State-chartered banks converted to national banks	Trust companies*	Nonbank banks*
Alabama	0	1	0	0	1	0	0
Alaska	0	0	0	0	0	0	0
Arizona	0	0	0	0	0	0	0
Arkansas	2	0	0	0	0	0	0
California	8	4	1	4	2	1	0
Colorado	11	1	0	0	0	0	0
Connecticut	0	1	0	1	0	0	0
Delaware	1	1	0	0	0	0	0
District of Columbia	1	1	0	1	0	0	0
Florida	12	6	1	3	0	0	0
Georgia	4	6	0	2	0	0	0
Hawaii	0	0	0	0	0	0	0
Idaho	0	0	0	0	0	0	0
Illinois	0	0	0	0	2	0	0
Indiana	0	0	0	0	0	0	0
Iowa	1	0	0	0	0	0	0
Kansas	0	0	0	1	0	0	0
Kentucky	0	0	0	0	1	0	0
Louisiana	0	0	0	1	0	0	0
Maine	0	0	0	0	0	0	0
Maryland	1	0	0	0	0	0	0
Massachusetts	0	4	0	0	0	0	0
Michigan	0	0	0	0	3	0	0
Minnesota	0	0	0	0	2	0	0
Mississippi	0	0	0	0	0	0	0
Missouri	2	1	0	0	3	0	0
Montana	0	0	0	1	0	0	0
Nebraska	0	0	0	0	0	0	0
Nevada	0	0	0	1	0	0	0
New Hampshire	0	0	0	0	0	0	0
New Jersey	0	3	0	2	0	0	0
New Mexico	0	0	0	0	0	0	0
New York	2	1	0	2	0	0	0
North Carolina	0	0	0	0	0	0	0
North Dakota	0	0	0	0	0	0	0
Ohio	2	1	0	0	0	0	1
Oklahoma	1	0	0	0	0	0	0
Oregon	1	0	0	0	0	0	1
Pennsylvania	5	0	0	1	0	0	0
Rhode Island	0	0	0	0	0	0	0
South Carolina	5	3	0	1	0	0	0
South Dakota	0	0	0	0	0	0	0
Tennessee	1	0	0	1	0	0	0
Texas	1	0	1	3	7	0	0
Utah	0	0	0	0	0	0	0
Vermont	0	0	0	0	0	0	0
Virginia	0	1	0	1	0	0	0
Washington	2	0	0	0	0	0	0
West Virginia	0	0	0	0	0	0	0
Wisconsin	0	1	0	2	1	0	0
Wyoming	0	0	0	0	0	0	0
Total	63	35	3	28	22	1	2

*These figures are included in the figures for received, approved, denied and charters issued

Applications for new national bank charters, approved and rejected, by states, July 1 to December 31, 1987

	Approved	Rejected
ALABAMA		
Gulf National Bank, Orange Beach	7/24	———
CALIFORNIA		
U.S. Trust Company of California, National Association, Los Angeles	8/19	———
Northern Trust of California, National Association, Santa Barbara	10/30	———
Hacienda National Bank, Santa Maria	7/29	———
American Capital Bank, National Association, Torrance	———	10/30
First National Bank of Ventura, Ventura	7/13	———
COLORADO		
FirstBank of Republic Plaza, National Association, Denver	11/3	———
CONNECTICUT		
Enfield National Bank, Enfield	9/4	———
DELAWARE		
Midlantic National Bank/Delaware, Wilmington	10/26	———
DISTRICT OF COLUMBIA		
City National Bank of Washington, Washington	11/25	———
FLORIDA		
Hometown National Bank, Deland	———	9/29
Merchant National Bank, Fort Myers	9/8	———
First National Bank of Monroe County, Key Largo	9/10	———
Security National Bank of Osceola, Kissimmee	10/16	———
First Mercantile National Bank, Seminole County, Longwood	10/22	———
Norstar Trust Company of Florida, National Association, Naples	7/16	———
The Huntington Trust Company of Florida, National Association, Naples	10/7	———
GEORGIA		
Georgia National Bank, Athens	8/26	———
Embry National Bank, Atlanta	9/4	———
Suntrust BankCard, National Association, Atlanta	8/27	———
Carroll National Bank, Carrollton	9/18	———
The Summit National Bank, Dekalb County	7/30	———
Mountain National Bank, Tucker	9/18	———
MASSACHUSETTS		
Bank of New England Interim National Bank - No. 3, Boston	9/25	———
Bank of New England Interim National Bank - No. 1, Boston	9/25	———
Bank of New England Interim National Bank - No. 2, Boston	9/25	———
Boston Harbor Trust Company, National Association, Boston	11/2	———
MISSOURI		
First Business Bank of Kansas City, National Association, Kansas City	8/13	———
NEW JERSEY		
PNC National Bank of New Jersey, Cherry Hill	11/18	———
First Pennsylvania (NJ) National Association, Evesham	8/7	———
Suburban National Bank, Hillsboro Township	9/8	———
NEW YORK		
Saratoga National Bank and Trust Company, Saratoga Springs	10/26	———
OHIO		
The Huntington Trust Company, National Association, Columbus	9/24	———
SOUTH CAROLINA		
Aiken County National Bank, Aiken	9/18	———
Commercial Bank of the South, National Association, Columbia	11/9	———
National Bank of Lancaster, Lancaster	10/8	———
TEXAS		
Princeton National Bank, Princeton	———	10/30
VIRGINIA		
Virginia Commerce Bank, National Association, Arlington	7/27	———
WISCONSIN		
Tri City National Bank of Menomonee Falls, Menomonee Falls	7/30	———

New national bank charters issued, by states, July 1 to December 31, 1987

Charter number	Date open	Title and location of bank
		CALIFORNIA
20993	12/21	United Security Bank, National Association, Fresno
21602	11/18	U S Trust Company of California, National Association, Los Angeles
21300	7/2	Los Robles National Bank, Thousand Oaks
21277	10/15	Valencia National Bank, Valencia
		CONNECTICUT
21403	8/31	Baybank Connecticut, National Association, Farmington
		DISTRICT OF COLUMBIA
21218	7/20	Columbia National Bank, Washington
		FLORIDA
21418	8/31	Enterprise National Bank of Jacksonville, Jacksonville
21410	11/18	Norstar Trust Company of Florida, National Association, Naples
21261	7/13	First Florida Bank of Pasco County, National Association, New Port Richey
		GEORGIA
21537	12/7	Embry National Bank, Atlanta
21455	10/23	Vinings Bank & Trust, National Association, Atlanta
		KANSAS
21389	9/4	Community National Bank, Chanute
		LOUISIANA
21662	10/30	Capital Bank & Trust Co., National Association, Baton Rouge
		MONTANA
21158	7/27	Blackfeet National Bank, Browning
		NEVADA
18667	7/23	Laughlin National Bank, Laughlin
		NEW JERSEY
21496	11/2	First Pennsylvania (NJ) National Association, Evesham
21119	10/1	The Community National Bank of New Jersey, Westmont
		NEW YORK
21364	7/15	Key Bank USA National Association, Albany
20962	11/6	The Park Avenue Bank National Association, New York
		PENNSYLVANIA
21654	10/22	Lincoln National Bank, Pittsburgh
		SOUTH CAROLINA
21398	11/19	Orangeburg National Bank, Orangeburg
		TENNESSEE
21490	11/16	Brentwood National Bank, Brentwood
		TEXAS
21155	12/11	First National Bank of Cedar Hill, Cedar Hill
21024	7/7	Interstate National Bank, Dallas
21189	8/17	Great Western National Bank, Lewisville
		VIRGINIA
21393	12/11	Bank First, National Association, McLean
		WISCONSIN
21505	10/13	Tri City National Bank of Menomonee Falls, Menomonee Falls

State-chartered banks converted to national banks, by states, July 1 to December 31, 1987

Title and location of bank	Effective date	Total assets
ALABAMA		
Southtrust National Bank (21473), conversion of Southtrust Bank of Russell County, Phenix City	7/10	$ 23 616 000
CALIFORNIA		
Bank of Palm Springs, National Association (21541), conversion of Bank of Palm Springs, Palm Springs	10/1	133,011 000
Barbary Coast National Bank (21513), conversion of Barbary Coast Savings Bank, F.S.B., San Francisco	7/27	30,000,000
ILLINOIS		
Citizens First National Bank of Genoa (18743), conversion of Genoa State Bank, Genoa	7/1	30,825,000
American National Bank of Lansing (21447), conversion of Bank of Lansing, Lansing	8/17	117,089 000
KENTUCKY		
Huntington National Bank of Boone County (21476), conversion of Huntington Bank of Boone County, Inc., Burlington	10/1	39,000,000
MICHIGAN		
Manufacturers Bank of Coopersville, National Association (21430), conversion of Manufacturers Bank of Coopersville, Coopersville	7/6	58,562,000
Metrobanc, National Association (21368), conversion of Metrobanc State Savings and Loan Association, Grand Rapids	7/24	316,825,000
Manufacturers Bank of Saline, National Association (21527), conversion of Manufacturers Bank of Saline, Saline	12/21	110,943,000
MINNESOTA		
Norwest Bank Austin, National Association (21456), conversion of Norwest Bank Austin, Austin	9/1	61,122,000
First Trust National Association (21467), conversion of First Trust Company, Inc., St. Paul	12/31	37,594,000
MISSOURI		
Commerce Bank of Joplin, National Association (21539), conversion of Commerce Bank of Joplin, Joplin	10/13	85,819,000
Centerre Bank of South Kansas City, National Association (21523), conversion of Centerre Bank of South Kansas City, Kansas City	12/10	123,147,000
Commerce Bank of Springfield, National Association (21538), conversion of Commerce Bank of Springfield, Springfield	10/13	465,411,000
TEXAS		
Texas American Bank/Forum, National Association (21550), conversion of Texas American Bank/Forum, Arlington	12/15	51,059,000
Texas American Bank/Austin, National Association (21582), conversion of Texas American Bank/Austin, Austin	12/15	3 368 000
Texas American Bank/Dallas, National Association (21586), conversion of Texas American Bank/Dallas, Dallas	12/15	409 353,000
Texas American Bank/Midland, National Association (21559), conversion of Texas American Bank/Midland, Midland	12/15	127 147,000
MBank Pasadena, National Association (21500), conversion of MBank Pasadena, Pasadena	10/28	241,804 000
Texas American Bank/Southwest, National Association (21555), conversion of Texas American Bank/Southwest, Stafford	12/15	56,880,000
Texas American Bank/Wichita Falls, National Association (21556), conversion of Texas American Bank/Wichita Falls, Wichita Falls	12/15	56 283 000
WISCONSIN		
First National Bank (21610), conversion of First State Bank of Iola, Iola	12/18	23 830 000

Mergers, July 1 to December 31, 1987*

	Transactions involving two or more operating banks	*Transactions involving a single operating bank*	*Total*
Received	168	69	237
Approved	151	53	204
Denied	1	0	1
Abandoned	4	3	7
Consummated	141	44	185

*Mergers is a generic term which includes mergers, consolidations and purchases and assumptions

Mergers consummated involving two or more operating banks, July 1 to December 31, 1987
(Dollar amounts in thousands)

Date consummated	*Merging banks* *Resulting bank*	*Total assets*
	ALABAMA	
	Central Bank, National Association, Jacksonville (21470)	$ 50,515
	Central Bank of Oxford, National Association, Oxford (16105)	59,076
August 31	Central Bank, National Association, Jacksonville (21470)	109,591
	ALASKA	
	National Bank of Alaska, Anchorage (14651)	1,244,679
	Alaska National Bank of the North, Fairbanks (14747)	203,074
October 22	National Bank of Alaska, Anchorage (14651)	NA
	National Bank of Alaska, Anchorage (14651)	1,244,679
	First Interstate Bank of Alaska, Anchorage	367,655
December 11	National Bank of Alaska, Anchorage (14651)	NA
	ARIZONA	
	Zions First National Bank, Mesa (21383)	29,779
	The Camel Bank, Incorporated, Phoenix	33,233
December 31	Zions First National Bank of Arizona, Mesa (21383)	63,012
	ARKANSAS	
	One National Bank of Little Rock, National Association, Little Rock (17900)	42,542
	One National Bank of North Little Rock, North Little Rock (14818)	212,186
October 1	One National Bank, North Little Rock (14818)	253,369
	CALIFORNIA	
	The Bank of California, National Association, San Francisco (9655)	4,030,225
	Bank of Palm Springs, (National Association), Palm Springs (21541)	133,279
October 1	The Bank of California, National Association, San Francisco (21541)	4,172,504
	Conejo Valley National Bank, Thousand Oaks (17582)	64,812
	Ventura County National Bank, Oxnard (17507)	99,707
October 19	Ventura County National Bank, Oxnard (17507)	164,519
	COLORADO	
	Intrawest Bank of Southwest Plaza, National Association, Littleton (17088)	11,191
	United Bank cf Southwest Plaza, National Association, Littleton (17358)	21,785
July 17	United Bank of Southwest Plaza, National Association, Littleton (17088)	32,976
	United Bank of Boulder, Boulder	107,911
	United Bank of Boulder, National Association, Boulder (2355)	130,399
July 31	United Bank of Boulder, National Association, Boulder (2355)	238,310
	Intrawest Bank of Fort Collins, National Association, Fort Collins (16909)	23,366
	United Bank of Fort Collins-South, National Association, Fort Collins (18004)	15,179
August 28	United Bank of Fort Collins-South, National Association, Fort Collins (16909)	38,545
	United Bank of Greeley, Greeley	102,118
	United Bank of Greeley, National Association, Greeley (3178)	155,813
October 30	United Bank of Greeley, National Association, Greeley (3178)	257,931
	United Bank of Arapahoe-East, National Association, Englewood (20263)	6,586
	United Bank of Arapahoe, National Association, Englewood (17017)	54,019
November 20	United Bank of Arapahoe, National Association, Englewood (17017)	60,605
	FLORIDA	
	Sarasota Bank & Trust Company, National Association, Sarasota (18455)	23,646
	First Union National Bank of Florida, Jacksonville (6888)	7,015,032
July 1	First Union National Bank of Florida, Jacksonville (17695)	7,154,215
	Bank of Boston - Florida, National Association, Palm Beach (17277)	2,780
	Hospital Trust of Florida, National Association, Palm Beach (17305)	421
July 31	Bank of Boston - Florida, National Association, Palm Beach (17277)	3,201
	Bayshore Bank of Florida Company, Miami	35,700
	Eagle National Bank of Miami, Miami (14804)	177,366
August 10	Eagle National Bank of Miami, Miami (14804)	213,066
	First State Bank of Pensacola, Pensacola	107,789
	First Union National Bank of Florida, Jacksonville (17695)	6,470,319
September 1	First Union National Bank of Florida, Jacksonville (17695)	6,621,651
	SafraBank II, National Association, Pompano Beach (17551)	21,262
	Colonial Savings Bank, National Association, Ocala (21324)	19,171
September 14	Safrabank II, National Association, Pompano Beach (17551)	40,432
	First Union National Bank of Florida, Jacksonville (17695)	6,470,319
	City Commercial Bank, Sarasota	46,952
September 25	First Union National Bank of Florida, Jacksonville (17695)	6,621,651

Mergers consummated involving two or more operating banks, July 1 to December 31, 1987 — continued
(Dollar amounts in thousands)

Date consummated	*Merging banks* / *Resulting bank*	*Total assets*
	Southeast Bank of Walton County, Destin	12,867
	Southeast Bank, National Association, Miami (15633)	11,779,139
October 15	Southeast Bank, National Association, Miami (15638)	11,790,451
	Northern Trust Bank of Florida, National Association, Miami (17487)	355,885
	Northern Trust Bank of Florida/Palm Beach, National Association, Palm Beach (17720)	46,712
October 28	Northern Trust Bank of Florida, National Association, Miami (17487)	382,564
	Community Bank of Manatee, Bradenton	59,408
	First Union National Bank of Florida, Jacksonville (17695)	7,956,507
November 30	First Union National Bank of Florida, Jacksonville (17695)	8,015,915
	Southeast Bank of Chipley, Chipley	30,792
	Southeast Bank of Madison County, National Association, Madison (15571)	32,499
	Southeast Bank, National Association, Miami (15638)	12,124,642
	Southeast Bank of Perry, National Association, Perry (14692)	34,809
December 31	Southeast Bank, National Association, Miami (15638)	12,192,204
	GEORGIA	
	The Peoples Bank, Carrollton	98,961
	The Citizens and Southern National Bank, Savannah (13068)	10,561,378
September 1	The Citizens and Southern National Bank, Savannah (13068)	10,660,283
	The Bank of Dalton, Dalton	69,812
	Commercial Bank & Trust Company, Griffin	214,860
	First Union National Bank of Newnan, Newnan (8477)	89,758
	First Union National Bank of Rome, Rome (10302)	183,292
	First Union National Bank of Georgia, Atlanta (21161)	1,112,324
November 1	First Union National Bank of Georgia, Atlanta (21161)	3,762,880
	Savannah Bank & Trust Company of Savannah, Savannah	493,505
	First Union National Bank of Georgia, Atlanta (21161)	1,112,324
	First Union National Bank of Valdosta, Valdosta (4429)	127,038
	First Union National Bank of Vidalia, Vidalia (15546)	44,347
	Commercial Bank, Waycross	44,111
November 1	First Union National Bank of Georgia, Atlanta (21161)	3,762,880
	The First National Bank of Atlanta, Atlanta (1559)	6,983,026
	First Bank of Savannah, Savannah	138,184
November 12	The First National Bank of Atlanta, Atlanta (1559)	7,114,059
	Roswell Bank, Roswell	171,193
	First Union National Bank of Georgia, Atlanta (21161)	3,606,604
November 16	First Union National Bank of Georgia, Atlanta (21161)	3,777,797
	Bank South, National Association, Atlanta (9617)	2,852,698
	Heritage Bank, Alpharetta	245,004
November 20	Bank South, National Association, Atlanta (9617)	3,181,258
	Farmers and Merchants Bank, Pine Mountain	31,822
	Central Bank of Georgia, Macon	66,054
	First Union National Bank of Columbus, Columbus (2338)	422,789
	First Union Bank of Augusta Company, Augusta	824,245
	First Union National Bank of Georgia, Atlanta (21161)	1,112,324
	Bank of Waynesboro, Waynesboro	41,553
	Bank of Screven County, Sylvania	43,732
December 1	First Union National Bank of Georgia, Atlanta (21161)	3,762,880
	First Bank of Conyers, Conyers	61,093
	Bank South, National Association, Atlanta (9617)	2,852,698
December 3	Bank South, National Association, Atlanta (9617)	3,181,258
	ILLINOIS	
	First Midwest Bank/Joliet, National Association, Joliet (14439)	405,114
	First Midwest Bank/Streator, A National Association, Streator (2681)	82,299
November 12	First Midwest Bank/Illinois, National Association, Streator (2681)	487,413
	First Midwest Bank/Hancock County, National Association, Carthage (14134)	27,867
	First Midwest Bank/Quincy, National Association, Quincy (14564)	145,983
December 31	First Midwest Bank/M C National Association Quincy (14564)	173,937
	INDIANA	
	Gainer Bank National Association, Gary (14468)	873,951
	Northern Indiana Bank and Trust Company, Valparaiso	257,594
November 19	Gainer Bank National Association, Gary (14468)	1,134,899
	IOWA	
	Hawkeye Bank & Trust Grundy Center	28,035
	The Grundy National Bank of Grundy Center Grundy Center (14066)	44,868
[illegible]	The Grundy National Bank of Grundy Center Grundy Center (14066)	72,238

Mergers consummated involving two or more operating banks, July 1 to December 31, 1987 — continued
(Dollar amounts in thousands)

Date consummated	Merging banks / Resulting bank	Total assets
	The First National Bank of Clarion, Clarion (3796)	78,678
	Farmers State Bank, Kanawha	16,910
July 30	The First National Bank of Clarion, Clarion (3796)	NA
	The First National Bank in Creston, Creston (12636)	72,313
	Citizens Savings Bank, Afton	17,712
October 1	The First National Bank in Creston, Creston (12636)	88,690
	Commercial Trust and Savings Bank, Charles City	39,902
	The Citizens National Bank of Charles City, Charles City (4677)	66,000
October 9	The Citizens National Bank of Charles City, Charles City (4677)	102,049
	Holstein State Bank, Holstein	33,538
	Iowa National Bank & Trust, Lytton (17877)	10,311
	Heritage Bank, National Association, Holstein (18269)	16,804
November 1	Heritage Bank, National Association, Holstein (18269)	60,653
	Norwest Bank Sioux City, National Association, Sioux City (5022)	133,413
	The Toy National Bank of Sioux City, Sioux City (10139)	147,682
December 1	Norwest Bank Sioux City, National Association, Sioux City (5022)	281,753
	KANSAS	
	First National Bank, Abilene (3777)	38,100
	The Talmage State Bank, Talmage	6,669
September 17	First National Bank, Abilene (3777)	NA
	The Mayfield State Bank of Mayfield, Kansas, Mayfield	6,793
	First National Bank in Harper, Harper (8307)	49,106
September 24	First National Bank in Harper, Harper (8307)	NA
	The First National Bank of Meade, Meade (7192)	25,370
	First National Bank, National Association, Garden City (17805)	14,129
October 1	First National Bank, Garden City (17805)	39,499
	LOUISIANA	
	Breaux Bridge Bank & Trust Co., Breaux Bridge	22,475
	Midsouth National Bank, Lafayette (18484)	62,975
September 17	Mid South National Bank, Lafayette (18484)	NA
	Hibernia National Bank, New Orleans (13688)	4,487,000
	Shreveport Bank & Trust Company, Shreveport	103,000
October 30	Hibernia National Bank, New Orleans (13688)	4,588,000
	Capital Bank & Trust Co., National Association, Baton Rouge (21662)	NA*
	Capital Bank & Trust Co., Baton Rouge	384,440
October 30	Capital Bank & Trust Co., National Association, Baton Rouge (21662)	NA
	American Bank of Commerce, Lake Charles	35,450
	National Bank of Commerce of Lake Charles, Lake Charles (17663)	32,096
December 10	National Bank of Commerce of Lake Charles, Lake Charles (17663)	NA
	First National Bank of Riverlands, Laplace (15279)	48,347
	First Industrial Bank & Trust Company, Metairie	44,484
	Century Bank, New Orleans	50,033
	First National Bank, Covington (14989)	307,351
December 31	First National Bank, Covington (14989)	434,835
	MASSACHUSETTS	
	Shawmut Community Bank, National Association, Framingham (528)	417,169
	Shawmut Bank, National Association, Boston (15509)	5,892,052
July 3	Shawmut Bank, National Association, Boston (15509)	6,288,233
	Bank of New England, National Association, Boston (475)	9,788,963
	Patriot Bank, National Association, Boston (15483)	980,052
August 6	Bank of New England, National Association, Boston (475)	10,844,015
	Shawmut Bank, National Association, Boston (15509)	5,734,743
	Shawmut County Bank, National Association, Cambridge (4771)	500,733
August 28	Shawmut Bank, National Association, Boston (15509)	6,209,700
	Shawmut Bank, National Association, Boston (15509)	6,219,212
	Shawmut Needham Bank, N.A., Needham (13241)	226,726
September 18	Shawmut Bank, National Association, Boston (15509)	6,439,698
	Shawmut Quincy Bank and Trust Company, Quincy	15,034
	Shawmut Bank, National Association, Boston (15509)	6,209,700
September 18	Shawmut Bank, National Association, Boston (15509)	6,219,212
	Hampshire National Bank of South Hadley, South Hadley (15005)	551,394
	Bank of New England-West, National Association, Springfield (308)	8,580,451
October 16	Bank of New England-West, National Association, Springfield (308)	8,580,451
	Shawmut Merchants Bank, N.A., Salem (726)	224,980
	Shawmut Bank, National Association, Boston (15509)	6,439,698
October 23	Shawmut Bank, National Association, Boston (15509)	6,619,088

(Dollar amounts in thousands)

Date consummated	Merging banks Resulting bank	Total assets
	Shawmut Bank National Association, Boston (15509)	6,619,088
	Shawmut First County Bank, N.A., Brockton (2504)	192,313
November 13	Shawmut Bank National Association, Boston (15509)	6,776,401
	MICHIGAN	
	First of America Bank-Van Buren, Hartford	36,733
	First of America Bank - Michigan, National Association, Kalamazoo (191)	898,425
July 1	First of America Bank-Michigan, National Association, Kalamazoo (191)	935,158
	NBD Grand Rapids, National Association, Grand Rapids (15575)	880,068
	NBD Grand Valley Bank, National Association, Grandville (15392)	113,292
August 31	Union Bank and Trust Company, National Association, Grand Rapids (15575)	986,888
	Michigan National Bank, Farmington Hills (16660)	7,423,639
	Michigan Bank - Livingston, Brighton	62,299
August 31	Michigan National Bank, Farmington Hills (16660)	7,485,228
	The First National Bank & Trust Company of Marquette, Marquette (390)	198,410
	Trenary State Bank, Trenary	12,206
October 23	The First National Bank & Trust Company of Marquette, Marquette (390)	210,347
	First of America Bank-Iron County, Stambaugh	18,579
	First of America Bank - Marquette, National Association, Marquette (12027)	58,970
October 23	First of America Bank - Marquette, National Association, Marquette (12027)	79,123
	Michigan National Bank, Farmington Hills (16660)	7,639,191
	Michigan National Bank-Michiana, Cassopolis (16371)	151,189
October 30	Michigan National Bank, Farmington Hills (16660)	7,786,475
	First of America Bank-Marquette, National Association, Marquette (12027)	79,123
	First of America Bank - Alger, National Association, Munising (9000)	19,934
November 20	First of America Bank - Marquette, National Association, Marquette (12027)	99,057
	National Bank of Detroit, Detroit (13671)	14,840,288
	NBD Troy Bank, National Association, Troy (16554)	87,490
November 30	National Bank of Detroit, Detroit (13671)	14,927,778
	MINNESOTA	
	First National Bank, Le Roy (7109)	7,467
	The First National Bank of Spring Valley, Spring Valley (6316)	12,982
August 3	The First National Bank of Le Roy, Le Roy (7109)	21,471
	First Bank East, National Association, St. Paul (20595)	309,341
	First Bank Grand, National Association, St. Paul (20594)	159,068
	First Bank Security, National Association, St. Paul (20591)	131,275
	First Bank White Bear Lake, National Association, White Bear Lake (20588)	125,717
	The First National Bank of Saint Paul, St. Paul (203)	6,106,035
	First National Bank of Hopkins, Hopkins (7958)	350,219
	First Edina National Bank, Edina (14713)	354,690
	First Southdale National Bank of Edina, Edina (14790)	333,662
	First Bank National Association-Lake, Minneapolis (13096)	353,783
	First National Bank of Minneapolis, Minneapolis (710)	10,779,065
	First Plymouth National Bank, Minneapolis (15697)	46,504
	First Bank Robbinsdale, National Association, Robbinsdale (20589)	179,460
	First Northtown National Bank, Blaine (15986)	77,233
	First National Bank of Burnsville, Burnsville (16650)	56,652
December 31	First Bank National Association, Minneapolis (710)	18,867,058
	MISSISSIPPI	
	The Hernando Bank, Hernando	81,723
	Trustmark National Bank, Jackson (10523)	2,503,599
September 1	Trustmark National Bank, Jackson (10523)	2,580,511
	Rankin County Bank, Brandon	166,996
	Trustmark National Bank, Jackson (10523)	2,503,599
September 8	Trustmark National Bank, Jackson (10523)	2,670,595
	Trustmark National Bank, Jackson (10523)	2,359,324
	The Commercial National Bank and Trust Company of Laurel, Laurel (11898)	157,353
December 31	Trustmark National Bank, Jackson (10523)	2,516,677
	MISSOURI	
	First National Bank of Poplar Bluff, Poplar Bluff (15377)	38,394
	Puxico State Bank, Puxico	14,434
[illegible]	First National Bank of Poplar Bluff, Poplar Bluff (15377)	52,828
	Boatmen's First National Bank of Kansas City, Kansas City (3456)	1,901,383
	Boatmen's Livestock National Bank, Kansas City (14735)	43,478
[illegible]	Boatmen's First National Bank of Kansas City, Kansas City (3456)	1,940,415

Mergers consummated involving two or more operating banks, July 1 to December 31, 1987 — continued
(Dollar amounts in thousands)

Date consummated	Merging banks Resulting bank	Total assets
	Bank of Brookfield-Purdin, National Association, Brookfield (16976)	35 870
	Bank of Meadville, Meadville	11 164
November 13	Bank of Brookfield-Purdin, National Association, Brookfield (16976)	47,015
	NEBRASKA	
	Scottsbluff National Bank and Trust Company, Scottsbluff (9581)	209,122
	Western National Bank of Scottsbluff, Scottsbluff (15551)	28,057
July 1	Scottsbluff National Bank and Trust Company, Scottsbluff (9581)	237 137
	North Platte National Bank, North Platte (20195)	43,250
	American Security Bank, North Platte	27,124
October 30	North Platte National Bank, North Platte (20195)	NA
	State Bank of Jansen, Jansen	5,010
	Security National Bank of Superior, Superior (14083)	33,433
December 3	Security National Bank of Superior, Superior (14083)	NA
	NEW JERSEY	
	United Jersey Bank/Fidelity Bank, Pennsauken Township	279,982
	United Jersey Bank/South, National Association, Cherry Hill (1346)	423,576
August 28	United Jersey Bank/South, National Association, Cherry Hill (1346)	703,558
	United Jersey Bank/Lenape State, West Deptford Township	113,925
	United Jersey Bank/South, National Association, Cherry Hill (1346)	423,576
October 30	United Jersey Bank/South, National Association, Cherry Hill (1346)	817,483
	The Peoples National Bank of Central Jersey, Piscataway (3697)	234,223
	First National Bank of Central Jersey, Bridgewater (3866)	824,038
December 4	First National Bank of Central Jersey, Bridgewater (3866)	1,047,129
	NORTH CAROLINA	
	The Union National Bank of Oxford, Oxford (13859)	87,270
	Southern National Bank of North Carolina, Lumberton (10610)	1,659,840
October 30	Southern National Bank of North Carolina, Lumberton (10610)	1,747,110
	NORTH DAKOTA	
	Citizens State Bank of Ray, Ray	11,720
	First National Bank & Trust Co. of Williston, Williston (14275)	100,646
October 15	First National Bank & Trust Co. of Williston, Williston (14275)	NA
	OKLAHOMA	
	Citizens National Bank & Trust of Muskogee, Muskogee (12918)	86,690
	Farmers & Merchants Bank, Eufaula	14,576
July 24	Citizens National Bank & Trust of Muskogee, Muskogee (12918)	NA
	Bank of Oklahoma, National Association, Tulsa (13679)	1,987,002
	The First National Bank of Yukon, Yukon (6159)	40,285
July 31	Bank of Oklahoma, National Association, Tulsa (13679)	NA
	Security State Bank, Roosevelt	17,378
	First National Bank of Altus, Altus (12155)	87,469
August 7	First National Bank, Altus (12155)	NA
	American Exchange Bank & Trust Company, Norman	88 551
	Bank of Oklahoma, National Association, Tulsa (13679)	1,987,002
August 20	Bank of Oklahoma, National Association, Tulsa (13679)	NA
	The First National Bank of Hammon, Hammon (10521)	6,536
	American National Bank, Elk City (18580)	13,346
September 3	American National Bank, Elk City (18580)	NA
	First National Bank of Altus, Altus (12155)	87,469
	The First National Bank of Tipton, Tipton (11052)	8,185
September 4	The First National Bank in Altus, Altus (12155)	NA
	Mustang National Bank, Mustang (18367)	12,769
	The First National Bank of Moore, Moore (12035)	32 888
September 17	The First National Bank of Moore, Moore (12035)	NA
	The American National Bank of Bristow, Bristow (10849)	48 608
	The Citizens Bank, Drumright	37 154
September 24	The American National Bank of Bristow, Bristow (10849)	NA
	United Services Bank, Hartshorne	15 327
	First National Bank & Trust Company of McAlester, McAlester (5052)	272 369
October 8	First National Bank & Trust Company of McAlester, McAlester (5052)	NA
	Citizens Bank of Krebs, Krebs	14 688
	First National Bank & Trust Company of McAlester, McAlester (5052)	272 369
October 14	First National Bank & Trust Company of McAlester, McAlester (5052)	NA

Mergers consummated involving two or more operating banks, July 1 to December 31, 1987 — continued

(Dollar amounts in thousands)

Date consummated	*Merging banks* *Resulting bank*	*Total assets*
	First National Bank in Bartlesville, Bartlesville (6258)	242,644
	Republic Bank, Oklahoma City	49,129
November 19	First National Bank in Bartlesville, Bartlesville (6258)	NA
	First National Bank of Weatherford, Weatherford (15407)	53,840
	The Farmers National Bank of Cordell, Cordell (9968)	62,300
December 3	First National Bank of Weatherford, Weatherford (15407)	NA
	OREGON	
	United States National Bank of Oregon, Portland (4514)	7,973,000
	Pacific State Bank, Lincoln City	27,000
September 30	United States National Bank of Oregon, Portland (4514)	7,995,000
	Bank of Corvallis, Corvallis	18,000
	United States National Bank of Oregon, Portland (4514)	7,973,000
September 30	United States National Bank of Oregon, Portland (4514)	7,987,000
	PENSYLVANIA	
	Liberty Bank of Carbondale, Carbondale	61,904
	First Eastern Bank, National Association, Wilkes-Barre (30)	1,706,688
October 22	First Eastern Bank, National Association, Wilkes-Barre (30)	1,766,268
	Lincoln National Bank, Pittsburgh (21654)	NA*
	New World National Bank, Pittsburgh (16443)	14,685
October 22	Lincoln National Bank, Pittsburgh (21654)	NA
	RHODE ISLAND	
	Security Bank and Trust Company, North Providence	42,400
	Bank of New England/Old Colony, National Association, Providence (18724)	851,000
September 25	Bank of New England - Old Colony, National Association, Providence (18724)	893,400
	SOUTH DAKOTA	
	Security Bank of South Dakota, National Association, Fort Pierre (9587)	14,477
	Security State Bank, Geddes	11,589
July 1	Security Bank of South Dakota, National Association, Fort Pierre (9587)	26,066
	State Bank of Waubay, Waubay	7,263
	First National Bank, Beresford (10813)	85,963
December 30	First National Bank, Beresford (10813)	93,226
	TENNESSEE	
	The First National Bank of Petersburg, Petersburg (10306)	11,800
	Union National Bank of Fayetteville, Fayetteville (13948)	97,300
July 16	Union National Bank, Fayetteville (13948)	109,100
	TEXAS	
	MBank Fort Worth, National Association, Fort Worth (11997)	875,013
	MBank Fort Worth, East, Fort Worth	139,609
July 1	MBank Fort Worth, National Association, Fort Worth (11997)	988,184
	United Citizens Bank, National Association, College Station (16828)	42,486
	Citizens Bank, Bryan	46,400
July 2	United Citizens Bank, National Association, College Station (16828)	NA
	Texas American Bank/McKinney, National Association, McKinney (2909)	214,520
	Texas American Bank/Allen, Allen	37,190
July 13	Texas American Bank/McKinney, National Association, McKinney (2909)	251,710
	First National Bank of Abilene, Abilene (4166)	382,476
	American National Bank of Abilene, Abilene (16888)	32,242
July 31	First National Bank of Abilene, Abilene (4166)	412,539
	Texas American Bank/Gulfway, National Association, Houston (16508)	34,212
	Texas American Bank/Fondren, Houston	63,982
	Texas American Bank/Spring Branch, Houston	62,761
	Texas American Bank/Galleria, National Association, Houston (14916)	419,295
July 31	Texas American Bank/Galleria, National Association, Houston (14916)	580,251
	MBank Denton National Association, Denton (4708)	100,020
	MBank Lewisville, National Association, Lewisville (15104)	100,681
August 1	MBank Denton County, National Association, Lewisville (15104)	192,263
	City National Bank - Furneaux Creek, Carrollton (18559)	19,277
	City National Bank of Carrollton, Carrollton (17442)	25,867
August 14	City National Bank of Carrollton, Carrollton (18559)	45,144
	Bank of North America, Houston	34,539
	Texas Commerce Bank, National Association, Houston (10225)	10,457,145
August 28	Texas Commerce Bank Houston, National Association, Houston (10225)	NA

Mergers consummated involving two or more operating banks, July 1 to December 31, 1987 — continued
(Dollar amounts in thousands)

Date consummated	Merging banks Resulting bank	Total assets
	Harris County Bank - Houston, National Association, Houston (15832)	70 099
	Harris County Bank-Cy-Fair, National Association, Houston (17904)	16 523
	Harris County Bank-Northwest, National Association, Houston (17468)	13 682
August 31	Harris County Bank-Houston, National Association, Houston (15832)	94 904
	NBC Bank - Mission, National Association, Mission (14383)	87 768
	First State Bank & Trust Company, Edinburg	53,943
August 31	NBC Bank-Rio Grande Valley, National Association, Mission (14383)	141 655
	First RepublicBank Barton Creek, National Association, Austin (17249)	30,000
	First RepublicBank Westlake, National Association, Austin (18481)	31 700
September 1	First RepublicBank Westlake, National Association, Austin (18481)	61 700
	First RepublicBank Tyler, National Association, Tyler (13110)	429,800
	RepublicBank Tyler, Tyler	333 400
September 1	First RepublicBank Tyler, National Association, Tyler (13110)	765,200
	Grand Bank - Woodall Rodgers, National Association, Dallas (17618)	57,163
	Grand Bank Central at Fitzhugh, National Association, Dallas (17647)	47,087
	Grand Bank Stemmons at Regal Row, National Association, Dallas (17968)	29,180
	Grand Bank, National Association, Dallas (18040)	44,228
September 11	Grand Bank, National Association, Dallas (18040)	174,753
	First RepublicBank North Dallas, National Association, Dallas (17160)	135,100
	InterFirst Bank Addison, Addison	81,400
	RepublicBank North Dallas, National Association, Addison (17360)	139,300
September 12	First RepublicBank North Dallas, National Association, Dallas (17160)	355,800
	Cypress National Bank, Houston (18401)	11,402
	Steeplechase National Bank, Houston (18399)	18,135
September 17	Cypress National Bank, Houston (18401)	NA
	First RepublicBank Medical Center, National Association, San Antonio (16209)	64,900
	First RepublicBank NW San Antonio, National Association, San Antonio (17793)	74,200
September 23	First RepublicBank NW San Antonio, National Association, San Antonio (17793)	139,100
	MBank Euless, National Association, Euless (14994)	76,439
	MBank Arlington, Arlington	137,785
September 25	MBank Arlington, National Association, Arlington (14994)	278,208
	MBank Brownsville, National Association, Brownsville (12236)	555,535
	MBank Harlingen, National Association, Harlingen (16279)	29,360
September 25	MBank Brownsville, National Association, Brownsville (12236)	584,895
	NBC Bank - Corpus Christi, Corpus Christi	124,887
	NBC Bank - South, Corpus Christi	23,522
	NBC Bank - Robstown, National Association, Robstown (12729)	89,505
September 30	NBC Bank - South Texas, National Association, Corpus Christi (12729)	237,914
	NBC Bank - Colonnade, National Association, San Antonio (17668)	39,106
	NBC Bank - Harlandale, National Association, San Antonio	99,274
	NBC Bank - Ingram Park, National Association, San Antonio (16756)	49,830
	NBC Bank - North, National Association, San Antonio (16343)	74,237
	NBC Bank - Perrin Beitel, National Association, San Antonio (17709)	67,554
	NBC Bank-San Antonio, National Association, San Antonio (6956)	1,185,181
	NBC Bank - Randolf, National Association, Universal City (15236)	49,259
September 30	NBC Bank - San Antonio, National Association, San Antonio (6956)	1,682,117
	Texas Commerce Bank, National Association, Houston (10225)	10,724,476
	Western Bank-North Wilcrest, National Association, Houston (17827)	41,055
October 1	Texas Commerce Bank, National Association, Houston (10225)	NA
	Western Bank-Westwood, National Association, Houston (17436)	44 196
	Texas Commerce Bank, National Association, Houston (10225)	10 724,476
October 1	Texas Commerce Bank, National Association, Houston (10225)	NA
	Western Bank-Westheimer, Houston	260,560
	Charter National Bank-Houston, Houston (15078)	128,556
	Charter National Bank - Westheimer, Houston (17105)	94,009
October 1	Charter National Bank-Houston, Houston (15078)	NA
	First RepublicBank Universal City, National Association, Universal City (16846)	42 300
	National Bank of Fort Sam Houston, San Antonio (13578)	679 800
October 28	National Bank of Fort Sam Houston, San Antonio (13578)	722 100
	Wilcrest National Bank, Houston (18044)	39 469
	Memorial Bank National Association, Houston (20471)	19 665
October 30	Memorial Bank, National Association, Houston (18044)	59 134
	First RepublicBank Abilene, National Association, Abilene (13727)	201 100
	InterFirst Bank South Abilene, Abilene	37 000
October 31	First RepublicBank Abilene, National Association, Abilene (13727)	238 100
	American National Bank, Waco (17319)	50 059
	The American Bank of Waco, Waco	68 887
November 1	American National Bank, Waco (17319)	119 761

Mergers consummated involving two or more operating banks, July 1 to December 31, 1987 — continued
(Dollar amounts in thousands)

Date consummated	*Merging banks* / *Resulting bank*	*Total assets*
	Texas American Bank/West Side, Fort Worth	208,090
	Texas American Bank/Fort Worth, National Association, Fort Worth (3131)	2,527,250
	Texas American Bank/Ridgmar, Fort Worth	38,150
	Texas American Bank/Riverside, Fort Worth	191,981
November 6	Texas American Bank/Fort Worth, National Association, Fort Worth (3131)	2,869,285
	First RepublicBank SW Temple, National Association, Temple (16983)	28,200
	First RepublicBank Temple, National Association, Temple (14459)	164,400
November 7	First RepublicBank Temple, National Association, Temple (14459)	192,600
	West Texas State Bank of Canyon, Canyon	20,440
	The First National Bank of Amarillo, Amarillo (4214)	656,487
November 13	First National Bank of Amarillo, Amarillo (4214)	NA
	First RepublicBank El Paso, National Association, El Paso (16506)	207,700
	First RepublicBank Chelmont, National Association, El Paso (17312)	41,300
November 14	First RepublicBank El Paso, National Association, El Paso (16506)	249,000
	First RepublicBank Waco, National Association, Waco (3135)	579,500
	First RepublicBank Lake Air, National Association, Waco (15075)	141,900
November 16	First RepublicBank Waco, National Association, Waco (3135)	721,400
	Kelly Field National Bank, San Antonio (14794)	130,141
	Exchange National Bank, San Antonio (16889)	18,960
November 19	Kelly Field National Bank, Leon Valley (14794)	149,092
	First City National Bank of El Paso, El Paso (14581)	333,000
	First City Bank - East, National Association, El Paso (17975)	40,000
	First City Bank - West, N.A., El Paso (16762)	40,000
December 1	First City National Bank of El Paso, El Paso (14581)	411,000
	MBank Dallas, National Association, Dallas (13743)	7,431,603
	MBank Lincoln Centre, National Association, Dallas (17454)	99,088
	MBank Market Center, Dallas	129,595
	MBank Preston, Dallas	662,501
	MBank Irving, Irving	60,693
	MBank Las Colinas, National Association, Irving (18189)	53,222
December 4	MBank Dallas, National Association, Dallas (13743)	8,160,940
	Community National Bank, Austin (15691)	72,218
	Heritage National Bank, Austin (18117)	53,227
December 10	Community National Bank, Austin (15691)	NA
	MBank San Felipe, National Association, Houston (16966)	133,865
	MBank West Oaks, National Association, Houston (16967)	18,305
	MBank Westbury National Association, Houston (14858)	76,863
	MBank Westchase, National Association, Houston (16039)	91,935
	MBank Memorial National Association, Houston (15896)	133,865
	MBank Clear Lake, National Association, Houston (16733)	47,253
	MBank Copperfield, National Association, Houston (17172)	24,157
	MBank Greenspoint, National Association, Houston (15802)	60,362
	MBank Greenway, Houston	189,153
	MBank Gulf Freeway, National Association, Houston (14890)	95,809
	MBank Houston, National Association, Houston (15528)	4,753,895
	MBank Houston Southwest, Houston	40,891
	MBank Long Point, National Association, Houston (14777)	117,808
December 11	MBank Houston, National Association, Houston (15528)	5,397,587
	USBank, Denton	86,046
	United National Bank, Dallas (18370)	36,004
December 17	United National Bank, Dallas (18370)	NA
	Liberty Eylau State Bank, Bowie County	18,830
	The Texarkana National Bank, Texarkana (3785)	184,605
December 18	The Texarkana National Bank, Texarkana (3785)	186,127
	Texarkana National Bank - Twin City, Texarkana (20941)	22,619
	Texarkana National Bank-Central Plaza, Texarkana (18453)	22,795
	The Texarkana National Bank, Texarkana (3785)	180,920
December 18	The Texarkana National Bank, Texarkana (3785)	237,888
	InterFirst Bank Pasadena, Pasadena	118,000
	InterFirst Bank Tomball, Tomball	94,000
	First RepublicBank SW Houston, National Association, Bellaire (17142)	148,000
	InterFirst Bank Baytown, Baytown	99,000
	RepublicBank Spring Branch, Houston	208,000
	First RepublicBank Kingwood, National Association, Kingwood (17049)	52,000
	InterFirst Bank East Houston, Houston	174,000
	InterFirst Bank Fannin, Houston	376,000
	InterFirst Bank Greenspoint, Houston	97,000
	InterFirst Bank Post Oak, Houston	128,000
	First RepublicBank Nassau Bay, National Association, Houston (15188)	140,000

Mergers consummated involving two or more operating banks, July 1 to December 31, 1987 — continued
(Dollar amounts in thousands)

Date consummated	Merging banks Resulting bank	Total assets
	First RepublicBank San Felipe, National Association, Houston (16096)	156,000
	First RepublicBank Braes Bayou, National Association, Houston (16602)	73,000
	First RepublicBank Eldridge, National Association, Houston (18348)	41,000
	First RepublicBank Houston, National Association, Houston (9353)	2,800,000
December 31	First RepublicBank Houston, N.A., Houston (9353)	4,342,000
	WASHINGTON	
	Puget Sound National Bank, Tacoma (12292)	1,743,220
	Gig Harbor National Bank, Gig Harbor (21350)	12,461
October 19	Puget Sound National Bank, Tacoma (12292)	1,754,669
	The Washington Bank, McCleary	11,396
	Rainier National Bank, Seattle (4375)	8,137,017
December 31	Rainier National Bank, Seattle (4375)	8,137,017
	WEST VIRGINIA	
	Half Dollar Trust and Savings Bank, Wheeling	75,432
	United National Bank - North, Wheeling (14142)	52,878
August 31	United National Bank, North, Wheeling (14142)	128,310
	Kanawha Valley Bank, N.A., Charleston (16433)	709,940
	The Bank of St. Albans, St. Albans	118,237
September 1	Kanawha Valley Bank, National Association, Charleston (16433)	820,484
	Gilbert Bank and Trust Company, Gilbert	58,764
	American National Bank, Logan (17073)	18,736
	The Matewan National Bank, Matewan (10370)	104,500
December 21	The Matewan National Bank, Matewan (10370)	190,383
	WISCONSIN	
	Associated Appleton Bank, Appleton	54,692
	The First National Bank of Neenah, Neenah (1602)	165,632
July 13	The First National Bank of Neenah, Appleton (1602)	220,322
	Associated Bank, National Association, Appleton (1602)	213,675
	Associated Neenah West Bank, National Association, Neenah (15599)	28,638
December 17	Associated Bank, National Association, Neenah (1602)	242,286

*Newly organized national bank.

Mergers consummated involving a single operating bank, July 1 to December 31, 1987
(Dollar amounts in thousands)

Date consummated	Merging banks Resulting bank	Total assets
	ALABAMA	
	The First National Bank of Atmore, Atmore	
	The First National Interim Bank of Atmore, Atmore	
July 31	The First National Bank of Atmore, Atmore (10697)	$ 70,467
	Central Bank, National Association, Jacksonville	
	Jacksonville State Bank, Jacksonville	
August 31	Central Bank, National Association, Jacksonville (21470)	50,515
	The First National Bank of Brundidge, Brundidge	
	The First National Interim Bank of Brundidge, Brundidge	
November 2	The First National Bank of Brundidge, Brundidge (7429)	19,993
	CALIFORNIA	
	ABI Interim National Bank, Pleasanton	
	Community First National Bank, Pleasanton	
July 1	Community First National Bank, Pleasanton (21446)	89,584
	Western Security Interim Bank, National Association, Burbank	
	Western Security Bank, National Association, Burbank	
August 10	Western Security Bank, National Association, Burbank (21472)	45,977
	De Anza Interim National Bank, Riverside	
	De Anza National Bank, Riverside	
September 23	De Anza National Bank, Riverside (17367)	30,489
	FLORIDA	
	Barnett Bank of Bradenton, National Association, Bradenton	
	Barnett Bank of Manatee County, National Association, Manatee County	
July 3	Barnett Bank of Manatee County, National Association, Bradenton (15318)	351,159
	ILLINOIS	
	The Second National Bank of Paris, Paris	
	The Citizens National Bank of Paris, Paris	
July 31	The Citizens National Bank of Paris, Paris (6451)	105,116
	Seaway National Bank of Chicago, Chicago	
	SNB Interim National Bank, Chicago	
September 28	Seaway National Bank of Chicago, Chicago (15459)	138,603
	Heritage First National Bank of Lockport, Lockport	
	CFS National Bank, Lockport	
November 2	Heritage First National Bank of Lockport, Lockport (8933)	80,997
	The First National Bank of Highland, Highland	
	Helvetia National Bank, Highland	
December 31	The First National Bank of Highland, Highland (6653)	112,531
	INDIANA	
	Bank One, Rensselaer, National Association, Rensselaer	
	Northwest National Bank Rensselaer, Rensselaer	
September 1	Bank One, Rensselaer, National Association, Rensselaer (14288)	151,657
	KENTUCKY	
	First National Bank of La Center, La Center	
	PFC National Bank of La Center, La Center	
October 2	First National Bank of La Center, La Center (14693)	19,416
	First Interim National Bank of Versailles, Versailles	
	First National Bank of Versailles, Versailles	
November 8	First National Bank of Versailles, Versailles (16905)	21,664
	Farmers Interim National Bank, Scottsville	
	The Farmers National Bank of Scottsville, Scottsville	
December 31	The Farmers National Bank, Scottsville (12456)	58,566
	LOUISIANA	
	First National Bank of West Monroe, West Monroe	
	New First National Bank of West Monroe, West Monroe	
August 31	First National Bank of West Monroe, West Monroe (14685)	137,755
	MARYLAND	
	The Riggs National Bank of Maryland, Rockville	
	First Fidelity Bank, Rockville	
December 18	The Riggs National Bank of Maryland, Rockville (21599)	59,885

Mergers consummated involving a single operating bank, July 1 to December 31, 1987 — continued
(Dollar amounts in thousands)

Date consummated	Merging banks / Resulting bank	Total assets
	MASSACHUSSETS	
	The First National Bank of Ipswich, Ipswich	
	The Second National Bank of Ipswich, Ipswich	
October 13	The First National Bank of Ipswich, Ipswich (4774)	80,993
	MICHIGAN	
	MetroBanc-Interim, National Association, Grand Rapids	
	MetroBanc, National Association, Grand Rapids	
July 24	MetroBanc, National Association, Grand Rapids (21368)	346,357
	NEW YORK	
	Asia Bank National Association, New York City	
	Asia Interim National Bank, Flushing	
July 31	Asia Bank, National Association, Flushing (18432)	59,530
	Capital National Bank, New York	
	CNB National Bank, New York	
August 31	Capital National Bank, New York (16479)	82,594
	Lyons Interim, National Association, Lyons	
	The Lyons National Bank, Lyons	
September 30	The Lyons National Bank, Lyons (1027)	38,041
	The Nichols National Bank, Nichols	
	The 15 River Street National Bank, Nichols	
September 30	The Nichols National Bank, Nichols (9399)	20,293
	OHIO	
	Liberty Interim Bank, National Association, Ada	
	The Liberty National Bank of Ada, Ada	
September 18	The Liberty National Bank of Ada, Ada (5425)	47,412
	Chesterhill Interim National Bank, Chesterhill	
	The First National Bank of Chesterhill, Chesterhill	
September 18	The First National Bank of Chesterhill, Chesterhill (5552)	11,648
	Shelby Interim, National Association, Shelby	
	The First National Bank of Shelby, Shelby	
December 31	The First National Bank of Shelby, Shelby (1929)	94,451
	OREGON	
	National Security Bank, Newport	
	National Security Interim Bank, Newport	
November 9	National Security Bank, Newport (14306)	73,327
	PENNSYLVANIA	
	The Honesdale National Bank, Honesdale	
	The Interim Honesdale National Bank, Honesdale	
July 29	The Honesdale National Bank, Honesdale (644)	88,026
	Spring Grove Interim National Bank, Spring Grove	
	The Spring Grove National Bank, Spring Grove	
September 1	Spring Grove National Bank, Spring Grove (6536)	60,916
	The Luzerne Interim National Bank, Luzerne	
	The Luzerne National Bank, Luzerne	
November 10	The Luzerne National Bank, Luzerne (8921)	42,213
	The Watsontown Interim National Bank, Watsontown	
	The Watsontown National Bank, Watsontown	
November 10	The Watsontown National Bank, Watsontown (2483)	29,476
	The First National Bank of Stoneboro, Stoneboro	
	The Stoneboro Interim National Bank, Stoneboro	
December 1	The First National Bank of Stoneboro, Stoneboro (6638)	15,713
	SOUTH CAROLINA	
	Anderson National Bank, Anderson	
	New Anderson National Bank, Anderson	
November 2	Anderson National Bank, Anderson (18282)	52,373
	TENNESSEE	
	The First National Bank of Springfield, Springfield	
	DT Interim National Bank, Nashville	
December 28	First National Bank of Springfield, Springfield (12639)	78,280
	Bank of Bellevue, Nashville	
	First Union National Bank of Tennessee, Nashville	
December 31	First Union National Bank of Tennessee, Nashville (21619)	13,143

Mergers consummated involving a single operating bank, July 1 to December 31, 1987 — continued
(Dollar amounts in thousands)

Date consummated	*Merging banks* *Resulting bank*	*Total assets*
	TEXAS	
	The First National Bank of Gilmer, Gilmer	
	New Gilmer Bank, Gilmer	
August 31	The First National Bank of Gilmer, Gilmer (5288)	89,693
	Lockwood National Bank of Houston, Houston	
	New Lockwood National Bank, Houston	
September 4	Lockwood National Bank of Houston, Houston (14815)	124,210
	New First National Bank of Albany, Albany	
	The First National Bank of Albany, Albany	
November 23	The First National Bank of Albany, Albany (3248)	50,465
	VIRGINIA	
	RNB National Bank, Richlands	
	The Richlands National Bank, Richlands	
August 20	The Richlands National Bank, Richlands (10857)	52,716
	Peoples Bank, National Association, Warrenton	
	The Peoples National Bank of Warrenton, Warrenton	
December 31	The Peoples National Bank of Warrenton, Warrenton (9642)	59,537
	WEST VIRGINIA	
	First National Bank in Ronceverte, Ronceverte	
	First St. Lawrence National Bank, Ronceverte	
August 3	The First National Bank in Ronceverte, Ronceverte (13830)	55,061
	NBA, National Association, Ansted	
	The National Bank of Ansted, Ansted	
August 31	The National Bank of Ansted, Ansted (14318)	21,049
	Central Interim National Bank, Buckhannon	
	The Central National Bank of Buckhannon, Buckhannon	
September 30	The Central National Bank of Buckhannon, Buckhannon (13646)	169,405
	South Branch Valley National Bank, Inc., Moorefield	
	The South Branch Valley National Bank of Moorefield, Moorefield	
December 31	South Branch Valley National Bank of Moorefield, Moorefield (3029)	64,816

National banks merged into state banks, by states, July to December 31, 1987

Title and location of bank	*Effective date*	*Total assets of national banks*
ALABAMA		
Albertville National Bank, Albertville (11820), merged into First Alabama Bank, Montgomery	October 23	$ 62,988,000
ALASKA		
First National Bank of Fairbanks, Fairbanks (7718), merged into Key Bank of Alaska, Anchorage	October 6	214,257,000
ARIZONA		
Sun National Bank, Mesa (18439), merged into Arizona Commerce Bank, Tucson	September 4	16,823,000
CALIFORNIA		
Bank of Los Gatos, National Association, Los Gatos (18294), merged into Bank of West San Francisco, San Francisco	July 23	13,149,000
COLORADO		
Central Bank of East Aurora, National Association, Aurora (18438), merged into Peoples Bank of Arapahoe County, Aurora	October 1	4,985,000
First National Bank of Brush, Brush (6437), merged into The Fort Lupton State Bank, Fort Lupton	October 8	20,927,000
First Continental Bank of Rockrimmon, N.A., Colorado Springs (18385), merged into Valley Bank, Colorado Springs	July 9	6,598,000
Century Bank Southeast, N.A., Greenwood Village (17163), merged into Century Bank at Orchard Valley, Arapahoe County	October 13	18,916,000
FLORIDA		
Barnett Bank Pinellas, N.A., St. Petersburg (14714), merged into Barnett Bank of Pinellas County, St. Petersburg	July 26	791,708,000
LOUISIANA		
LaFourche National Bank, Thibodaux (13345), merged into Citizens Bank & Trust Company, Thibodaux	October 1	113,082,000
MICHIGAN		
NBD Evart Bank, N.A., Evart (12561), merged into NBD Cadillac Bank, Cadillac	August 31	34,260,000
Comerica Bank, N.A., Grosse Pointe (17488), merged into Comerica Bank-Detroit, Detroit	December 31	52,304,000
Comerica Bank Metro West, N.A., Novi (16843), merged into Comerica Bank-Detroit, Detroit	December 31	78,539,000
Comerica Bank Metro East, N.A., Sterling Heights (16712), merged into Comerica Bank-Detroit, Detroit	December 31	149,603,000
Comerica Bank, N.A., Warren (15611), merged into Comerica Bank-Detroit, Detroit	December 31	351,716,000
MINNESOTA		
Security National Bank of Amboy, Amboy (14068), merged into American Bank Mankato, Mankato	August 17	13,070,000
MISSOURI		
Royal Bank-West Side, N.A., Glendale (15494), merged into Royal Bank Mid-County, University City	October 23	35,068,000
Citizens National Bank of Monett/Pierce City, Monett (4225), merged into First State Bank of Purdy, Purdy	December 21	27,952,000
OKLAHOMA		
First National Bank of Luther, Luther (8563), merged into First Wagoner Bank and Trust Company, Wagoner	August 13	17,113,000
PENNSYLVANIA		
Manheim National Bank, Manheim (912), merged into Farmers First Bank, Lititz	September 1	71,063,000
New Holland Farmers National Bank, New Holland (8499), merged into Dauphin Deposit Bank and Trust Company, Harrisburg	September 1	155,429,000
SOUTH DAKOTA		
Tri-State National Bank, Belle Fourche (16797), merged into The First Western Bank, Sturgis	November 10	10,728,000
TENNESSEE		
First National Bank of Dickson, Dickson (6930), merged into Dominion Bank of Middle Tennessee, Nashville	September 18	95,857,000
TEXAS		
BancFirst-Austin, National Association, Austin (17920), merged into Texas Capital Bank-Fort Bend, Richmond	December 10	25,253,000

National banks merged into state banks, by states, July to December 31, 1987 — continued

Title and location of bank	Effective date	Total assets of national banks
Western National Bank, Bryan (17522), merged into First State Bank in Caldwell, Caldwell	October 22	22,675,000
Conroe Bank, N.A., Conroe (18203), merged into Citadel Bank, Willis	October 1	11,664,000
Valley National Bank, Harlingen (17469), merged into FirstBank, Los Fresnos	November 20	10,929,000
First RepublicBank Post Oak, N.A., Houston (17022), merged into First RepublicBank Post Oak, Houston	September 24	72,360,000
First RepublicBank in Las Colinas, National Association, Irving (16653), merged into First RepublicBank Las Colinas, Irving	September 1	89,835,000
The First National Bank of Navasota, Navasota (4253), merged into First Bank, Navasota	August 13	31,679,000
First National Bank in Rhome, Rhome (13285), merged into Continental State Bank, Boyd	December 10	9,243,000
WEST VIRGINIA		
One Valley Bank of Terra Alta, National Association (6999), merged into One Valley Bank of Morgantown, Morgantown	September 30	37,087,000
WYOMING		
American National Bank of Afton, Afton (18312), merged into Star Valley State Bank, Afton	October 15	11,361,000
American National Bank of Evanston, Evanston (18423), merged into Pioneer Bank of Evanston, Evanston	August 20	9,092,000

National banks converted to state banks, by states, July 1 to December 31, 1987

Title and location of bank	Effective date	Total assets
COLORADO		
First National Bank of Salida, Salida (4172), converted to The Thatcher Bank, Federal Savings Bank	December 31	$ 43,798,000
ILLINOIS		
United National Bank, Arlington Heights (15921), converted to First Chicago Bank of Arlington Heights	December 21	49,121,000
First National Bank in Columbia, Columbia (13805), converted to Magna Bank of Columbia	November 16	60,498,000
United of Ogle Company, N.A., Oregon (14346), converted to Rock River Bank	September 9	28,970,000
The First National Bank of Normal, Normal (4930), converted to First State Bank of Normal	December 1	98,631,000
LOUISIANA		
New Iberia National Bank, New Iberia (3671), converted to The New Iberia Bank	November 17	177,133,000
MISSOURI		
First National Bank of Butler, Butler (14119), converted to First Bank of Butler	September 1	32,812,000
American Bank, N.A., Centralia (6875), converted to American Bank of Boone County	July 10	38,655,000
Mark Twain Bank, N.A., Ladue (16570), converted to Mark Twain Bank	July 2	987,981,000
American Bank of Franklin County, N.A., Union (17139), converted to American Bank of Franklin County	October 30	19,574,000
MONTANA		
Peoples Bank, N.A., Deer Lodge (21501), converted to Peoples Bank of Deer Lodge	December 31	123,000
OKLAHOMA		
Commercial National Bank, Tulsa (17159), converted to Commercial Bank of Tulsa	October 1	56,636,000
TEXAS		
International Bank of Commerce, N.A., Brownsville (17159), converted to International Bank of Commerce	October 1	45,328,000
Commerce Bank, National Association, Laredo (17246), converted to Commerce Bank	October 1	43,907,000
City Bank, National Association, Lubbock (18191), converted to City Bank	October 21	47,453,000

National banks liquidated under emergency procedures, July 1 to December 31, 1987

Title and location of bank	Effective date	Total assets
CALIFORNIA		
Empire National Bank, Los Angeles (18375)	July 31	$ 8,847,000
NEW YORK		
Central National Bank of New York, New York (16957)	September 11	180,796,000

Assets, liabilities and capital accounts of national banks, September 30, 1986, and September 30, 1987
(Dollar amounts in millions)

	Sept. 30, 1986 4,916 banks	*Sept. 30, 1987 4,699 banks**	*Change Sept. 30, 1986—Sept. 30, 1987 Fully consolidated*	
	Consolidated foreign and domestic	*Consolidated foreign and domestic*	*Amount*	*Percent*
Assets				
Cash and balances due from depository institutions:				
Noninterest-bearing balances and currency and coin	$ 115,209	$ 109,321	$ -5,888	-5.1
Interest-bearing balances	86,812	89,429	2,617	3.0
Securities	273,383	285,749	12,366	4.5
Federal funds sold and securities purchased under agreements to resell	71,905	75,134	3,229	4.5
Loans and leases, net of unearned income	1,033,493	1,090,033	56,540	5.5
Less allowance for loan and lease losses	17,441	30,596	13,155	75.4
Less allocated transfer risk reserve	86	161	75	87.2
Net loans and leases	1,015,966	1,059,276	43,310	4.3
Premises and fixed assets	25,276	26,339	1,063	4.2
Other real estate owned	4,807	5,997	1,190	24.8
Other assets	73,569	77,903	4,334	5.9
Total assets	1,666,927	1,729,149	62,222	3.7
Liabilities				
Noninterest-bearing deposits in domestic offices	260,986	258,424	-2,562	-1.0
Interest-bearing deposits in domestic offices	791,980	834,919	42,939	5.4
Total domestic deposits	1,052,996	1,093,343	40,377	3.8
Noninterest-bearing deposits in foreign offices	9,375	10,677	1,302	13.9
Interest-bearing deposits in foreign offices	199,138	203,567	4,429	2.2
Total foreign deposits	208,513	214,244	5,731	2.7
Total deposits	1,261,479	1,307,587	46,108	3.7
Federal funds purchased and securities sold under agreements to repurchase	157,925	161,842	3,917	2.5
Interest-bearing demand notes issued to the U.S. Treasury	16,810	19,828	3,018	18.0
Other liabilities for borrowed money	48,373	60,378	12,005	24.8
Mortgage indebtedness and liability for capitalized leases	1,529	1,531	2	0.1
Subordinated notes and debentures	9,667	9,750	83	0.9
All other liabilities	70,038	67,633	-2,405	-3.4
Total liabilities	1,565,822	1,628,550	62,728	4.0
Limited-life preferred stock	71	77	6	8.5
Equity capital				
Perpetual preferred stock	711	969	258	36.3
Common stock	16,409	16,627	218	1.3
Surplus	31,634	36,287	4,653	14.7
Undivided profits and capital reserves	52,586	46,901	-5,685	-10.8
Cumulative foreign currency translation adjustments	-307	-261	46	-15.0
Total equity capital	101,034	100,522	-512	-0.5
Total liabilities, limited-life preferred stock, and equity capital	1,666,927	1,729,149	62,222	3.7

*Reporting national banks. Does not include the nonnational bank in the District of Columbia

Year-to-date income and expenses of foreign and domestic offices and subsidiaries of national banks, September 30, 1987
(Dollar amounts in millions)

	4,699 banks*	
	Consolidated foreign and domestic	*Percent distribution*
Interest income		
Interest and fee income on loans	$ 80,630	74.4
Income from lease financing receivables	1,661	1.5
Interest income on balances due from depository institutions	5,019	4.6
Interest and dividend income on securities	15,411	14.2
Interest income from assets held in trading accounts	1,878	1.7
Interest income from federal funds sold and securities purchased under agreements to resell	3,722	3.4
Total interest income	108,323	99.8
Interest expense		
Interest on deposits	49,891	77.2
Expense of federal funds purchased and securities sold under agreements to repurchase	7,996	12.4
Interest on demand notes issued to the U.S. Treasury and on other borrowed money	5,931	9.2
Interest on mortgage indebtedness and obligations under capitalized leases	120	0.2
Interest on notes and debentures subordinated to deposits	673	1.0
Total interest expense	64,610	100.0
Net interest income	43,712	
Provision for loan and lease losses	19,142	
Provision for allocated transfer risk	73	
Noninterest income		
Service charges on deposit accounts	3,861	21.2
Other noninterest income	14,363	78.8
Total noninterest income	18,224	100.0
Gains and losses on securities not held in trading accounts	799	
Noninterest expense:		
Salaries and employee benefits	19,944	46.5
Expenses of premises and fixed assets (net of rental income)	6,887	16.1
Other noninterest expense	16,022	37.4
Total noninterest expense	42,853	100.0
Income (loss) before income taxes and extraordinary items and other adjustments	699	
Applicable income taxes	2,011	
Income before extraordinary items and other adjustments	-1,342	
Extraordinary items and adjustments, net of taxes	115	
Net income	-1,227	
Total cash dividends declared	4,039	
Recoveries credited to allowance for possible loan losses	1,835	
Losses charged to allowance for possible loan losses	8,622	
Net loan losses	6,787	
Ratio to total operating income		
Interest on deposits	39.4	
Other interest expense	11.6	
Salaries and employee benefits	15.8	
Other noninterest expense	18.1	
Total operating expenses	84.9	
Ratio of net income (annualized) to		
Total assets (end of period)	-0.09	
Total equity capital	-1.63	

*Reporting national banks. Does not include the nonnational bank in the District of Columbia

Deposits of national banks, by states, September 30, 1987

(Dollar amounts in millions)

	Total demand deposits at domestic offices	NOW and automatic transfer accounts	Non-transaction savings accounts	Time certificates of deposit of $100,000 or more	Other large time deposits	All other time deposits at domestic offices	Total deposits at foreign offices	Total consolidated deposits	Brokered deposits
All national banks	$254,123	$99,261	$308,198	$171,152	$18,952	$241,769	$214,244	$1,307 680	$21,244
Alabama	2,128	1,181	2,345	1,820	183	3,113	263	11,033	464
Alaska	618	138	664	365	3	176	2	1,966	67
Arizona	2,944	1,145	4,431	1,872	5	3,831	0	14,228	19
Arkansas	1,474	1,108	1,904	981	32	2,556	0	8,054	6
California	31,597	11,792	41,194	15,706	1,873	19,610	34,338	156,110	1,739
Colorado	3,594	1,745	3,978	1,866	282	2,272	162	13,899	19
Connecticut	4,124	1,353	3,487	854	557	3,041	348	13,763	237
Delaware	217	61	1,923	3,053	0	940	0	6,194	664
District of Columbia*	2,811	1,104	4,090	2,109	30	1,122	2,318	13,583	304
Florida	13,007	7,360	20,015	7,857	368	12,459	605	61,650	194
Georgia	5,954	1,958	5,460	3,291	219	4,667	667	22,215	729
Hawaii	47	29	86	35	0	17	0	215	0
Idaho	667	528	1,257	306	4	1,481	0	4,242	22
Illinois	13,735	4,220	14,676	10,212	1,439	13,463	26,867	84,613	775
Indiana	4,008	2,207	5,234	2,217	51	6,965	373	21,056	32
Iowa	1,479	946	1,717	415	5	2,919	0	7,481	15
Kansas	1,616	1,062	2,143	1,068	34	2,829	0	8,751	29
Kentucky	2,074	1,239	2,050	1,224	38	3,365	179	10,170	270
Louisiana	3,234	1,125	4,898	3,587	20	3,058	288	16,209	237
Maine	482	288	891	171	5	650	0	2,488	12
Maryland	3,928	943	5,356	1,401	13	3,026	1,023	15,689	332
Massachusetts	7,906	2,124	9,777	5,140	1,018	3,091	7,197	36,254	1,404
Michigan	6,924	2,200	10,074	3,749	125	8,274	2,148	33,494	456
Minnesota	5,862	2,387	4,927	5,527	279	5,653	2,688	27,322	2,093
Mississippi	1,279	698	1,529	1,219	17	2,279	0	7,021	39
Missouri	5,144	2,056	4,216	3,225	232	4,459	463	19,794	390
Montana	654	446	891	187	0	1,099	0	3,278	0
Nebraska	1,472	1,113	1,571	507	3	3,141	0	7,808	1
Nevada	922	400	1,033	795	0	515	0	3,665	78
New Hampshire	576	479	1,120	608	1	819	0	3,602	74
New Jersey	11,656	3,528	14,773	4,121	183	8,743	315	43,320	194
New Mexico	841	678	1,339	823	0	1,077	0	4,759	2
New York	34,751	7,085	35,197	14,218	6,450	17,023	114,525	229,250	1,109
North Carolina	6,394	2,507	7,604	4,812	228	6,392	1,760	29,697	566
North Dakota	375	425	505	165	0	1,050	0	2,521	1
Ohio	9,738	5,055	15,990	6,289	276	15,192	1,233	53,772	1,063
Oklahoma	2,776	1,549	2,804	2,685	55	4,212	91	14,172	93
Oregon	2,249	1,401	3,560	844	0	2,601	9	10,663	384
Pennsylvania	13,950	4,839	19,860	11,121	448	15,451	8,475	74,143	3,477
Rhode Island	1,156	428	2,205	1,410	505	1,732	974	8,408	836
South Carolina	1,945	1,281	2,321	671	10	2,060	0	8,287	3
South Dakota	453	498	764	1,514	2	1,738	0	4,968	961
Tennessee	3,669	2,064	3,293	2,756	27	5,381	171	17,360	140
Texas	20,131	7,715	15,864	29,560	3,612	19,002	4,578	100,461	644
Utah	1,032	565	1,410	787	9	1,393	106	5,303	37
Vermont	258	160	563	108	31	459	0	1,580	1
Virginia	3,360	2,003	4,224	3,710	93	5,286	30	18,705	760
Washington	4,911	1,990	6,432	2,182	30	5,034	1,834	22,413	155
West Virginia	1,096	720	2,314	579	12	2,881	0	7,602	26
Wisconsin	2,610	1,050	3,745	1,216	28	3,682	214	12,545	72
Wyoming	290	282	494	192	114	478	0	1,851	5
Puerto Rico	9	7	2	22	0	12	0	52	12

*Includes national and nonnational banks in the District of Columbia, all of which are supervised by the Comptroller of the Currency

Note: Figures may not add to totals due to rounding

Loans of national banks, by states, September 30, 1987
(Dollar amounts in millions)

	Total loans gross	Loans secured by real estate	Loans to financial institutions	Loans to farmers	Commercial and industrial loans	Personal loans to individuals	Other loans	Total loans less unearned income	Total loans at foreign offices
All national banks	$1,098,853	$329,505	$24,005	$13,750	$286,661	$199,114	$99,367	$1,090,084	$146,452
Alabama	8,656	2,938	109	49	2,771	1,883	880	8,504	26
Alaska	1,361	525	0	1	498	127	206	1,361	3
Arizona	11,629	4,124	271	562	3,011	2,954	682	11,618	26
Arkansas	5,206	2,149	36	201	1,371	1,110	339	5,148	0
California	134,382	44,416	979	1,964	28,990	18,529	9,096	134,211	30,408
Colorado	9,702	3,703	53	474	2,761	1,897	805	9,690	9
Connecticut	13,008	5,750	17	18	4,031	2,603	508	12,848	83
Delaware	16,098	716	171	1	429	14,678	103	16,098	0
District of Columbia*	10,524	4,083	358	0	3,095	956	1,197	10,475	835
Florida	49,099	22,149	756	202	10,346	12,125	3,276	48,228	245
Georgia	19,660	6,467	171	63	5,677	4,612	2,399	19,567	271
Hawaii	127	71	0	0	41	13	2	127	0
Idaho	3,395	854	2	346	948	1,008	238	3,380	0
Illinois	68,261	13,590	2,228	827	23,042	8,022	8,560	67,891	11,993
Indiana	16,443	5,382	267	289	4,397	4,233	1,693	16,332	183
Iowa	4,488	1,456	55	459	1,043	1,085	384	4,470	5
Kansas	5,123	1,601	29	649	1,469	1,048	328	5,106	0
Kentucky	8,310	2,501	41	121	2,555	1,922	1,123	8,179	48
Louisiana	11,416	4,079	53	86	3,558	2,081	1,184	11,339	374
Maine	2,226	1,159	0	13	589	354	111	2,216	0
Maryland	13,503	4,386	216	30	3,399	3,238	1,627	13,474	607
Massachusetts	37,252	11,642	530	35	13,294	3,465	3,566	37,093	4,721
Michigan	25,153	8,038	232	117	8,652	4,350	2,503	25,104	1,261
Minnesota	21,737	4,855	292	448	8,209	3,198	3,739	21,623	995
Mississippi	4,768	1,797	129	97	1,157	1,278	310	4,626	0
Missouri	14,684	5,220	187	267	3,889	2,981	1,863	14,614	276
Montana	1,791	490	24	236	553	404	84	1,779	0
Nebraska	4,758	1,042	101	929	1,023	1,223	439	4,756	0
Nevada	5,266	858	26	16	722	3,481	163	5,263	;0
New Hampshire	3,354	1,325	1	1	719	1,189	118	3,348	0
New Jersey	36,329	15,959	771	10	10,808	5,925	2,648	35,864	209
New Mexico	3,328	1,332	44	135	955	735	128	3,297	0
New York	196,062	37,994	8,999	352	32,914	16,532	14,561	192,834	84,709
North Carolina	27,662	9,583	502	219	8,367	4,845	3,590	27,639	556
North Dakota	1,517	443	15	225	438	310	86	1,515	0
Ohio	45,263	13,137	538	328	13,149	13,766	4,061	44,935	284
Oklahoma	8,059	3,243	119	511	2,203	1,110	874	8,016	0
Oregon	8,668	2,504	80	206	3,267	1,687	821	8,651	103
Pennsylvania	61,491	15,068	1,999	163	21,894	9,001	9,815	60,947	3,551
Rhode Island	7,838	3,277	86	2	2,654	879	773	7,829	167
South Carolina	7,207	2,552	192	40	1,939	1,811	673	7,084	0
South Dakota	13,354	470	20	267	587	11,826	184	13,326	0
Tennessee	13,820	4,705	295	92	4,066	3,006	1,654	13,663	2
Texas	79,465	30,871	2,358	1,486	26,661	8,436	6,749	78,839	2,905
Utah	4,343	1,518	174	60	1,174	1,035	381	4,339	0
Vermont	1,316	746	0	15	300	210	45	1,316	0
Virginia	15,373	5,658	103	114	3,679	4,358	1,439	15,286	24
Washington	20,693	7,039	249	702	5,127	4,323	1,859	20,670	1,393
West Virginia	4,760	2,121	22	12	859	1,482	264	4,675	0
Wisconsin	9,952	3,614	102	210	3,041	1,596	1,211	9,925	179
Wyoming	927	294	3	105	318	182	25	922	0
Puerto Rico	45	13	0	0	18	13	1	44	0

* Includes national and nonnational banks in the District of Columbia, all of which are supervised by the Comptroller of the Currency.

Note: Figures may not add to totals due to rounding.

Outstanding balances, credit cards and related plans of national banks, September 30, 1987
(Dollar amounts in thousands)

	Total number of national banks	Credit cards and other related credit plans	
		Number of national banks	Outstanding volume
All national banks	4,700	2,389	$58,970,234
Alabama	54	15	264,478
Alaska	5	3	55,841
Arizona	14	12	751,843
Arkansas	84	15	186,917
California	168	149	9,175,473
Colorado	235	205	663,353
Connecticut	17	10	464,997
Delaware	17	16	14,030,041
District of Columbia	20	18	141,216
Florida	162	76	2,150,260
Georgia	58	38	1,308,907
Hawaii	3	1	2,834
Idaho	6	6	163,401
Illinois	394	198	2,812,480
Indiana	102	80	820,177
Iowa	105	53	316,075
Kansas	168	42	219,228
Kentucky	78	36	158,438
Louisiana	67	21	369,399
Maine	7	6	55,735
Maryland	25	16	1,535,833
Massachusetts	44	34	888,486
Michigan	94	65	1,152,805
Minnesota	211	156	416,800
Mississippi	29	9	86,265
Missouri	100	52	769,258
Montana	60	36	19,011
Nebraska	116	38	544,217
Nevada	7	4	3,016,242
New Hampshire	20	16	735,838
New Jersey	66	46	655,362
New Mexico	42	14	194,367
New York	104	60	3,267,899
North Carolina	16	15	1,170,704
North Dakota	41	21	27,896
Ohio	139	103	3,048,047
Oklahoma	208	68	90,083
Oregon	8	6	568,125
Pennsylvania	171	72	819,097
Rhode Island	5	4	219,155
South Carolina	21	17	362,647
South Dakota	25	9	726,460
Tennessee	55	24	596,008
Texas	983	298	228,390
Utah	7	4	179,265
Vermont	12	6	35,279
Virginia	49	24	1,090,351
Washington	24	13	1,806,239
West Virginia	97	27	80,763
Wisconsin	117	102	513,650
Wyoming	38	28	8,588
Puerto Rico	1	1	5,647
District of Columbia—All*	21	19	141,580

*Includes the nonnational bank in the District of Columbia which is supervised by the Comptroller of the Currency

National banks engaged in lease financing, September 30, 1987
(Dollar amounts in thousands)

	Total number of national banks	*Number of banks engaged in lease financing*	*Amounts of lease financing at domestic offices*
All national banks	4,700	1,074	$17,304,714
Alabama	54	6	55,732
Alaska	5	2	4,988
Arizona	14	3	226,279
Arkansas	84	29	16,076
California	168	54	3,214,345
Colorado	235	80	107,279
Connecticut	17	2	1,209
Delaware	17	2	52,468
District of Columbia	20	7	54,743
Florida	162	25	315,136
Georgia	58	18	384,833
Hawaii	3	1	1,446
Idaho	6	3	84,537
Illinois	394	92	75,037
Indiana	102	44	325,277
Iowa	105	22	11,123
Kansas	168	37	35,267
Kentucky	78	23	150,345
Louisiana	67	13	50,982
Maine	7	2	8,845
Maryland	25	7	380,692
Massachusetts	44	17	1,900,881
Michigan	94	20	240,811
Minnesota	211	70	202,998
Mississippi	29	2	1,558
Missouri	100	28	209,028
Montana	60	11	992
Nebraska	116	30	70,312
Nevada	7	2	10,379
New Hampshire	20	5	10,293
New Jersey	66	16	283,072
New Mexico	42	16	21,887
New York	104	26	3,209,828
North Carolina	16	6	844,952
North Dakota	41	17	8,460
Ohio	139	64	1,115,847
Oklahoma	208	48	12,128
Oregon	8	3	240,376
Pennsylvania	171	30	1,475,865
Rhode Island	5	2	593,219
South Carolina	21	5	69,091
South Dakota	25	8	1,471
Tennessee	55	23	101,905
Texas	983	83	357,794
Utah	7	4	126,589
Vermont	12	1	1,598
Virginia	49	8	146,696
Washington	24	8	362,930
West Virginia	97	7	1,977
Wisconsin	117	34	124,046
Wyoming	38	8	1,092
Puerto Rico	1	0	0
District of Columbia—all*	21	7	54,743

* Includes the nonnational bank in the District of Columbia which is supervised by the Comptroller of the Currency

Consolidated foreign and domestic loans and leases past due at national banks, by states, September 30, 1987

(Dollar amounts in millions)

	Number of banks	*Type of loans*						
		Real estate	*Commercial and industrial*	*Personal*	*Leases*	*Other loans*	*Total loans*	*To non-U.S. addresses**
Reporting national banks	4,700	$16,741.2	$19,887.9	$7,177.58	$416.937	$15,118.2	$59,341.9	$8,756.79
Alabama	54	78.7	53.5	60.70	0.075	24.9	217.8	0.01
Alaska	5	70.2	30.7	3.15	0.118	40.8	145.0	0.00
Arizona	14	250.2	179.0	57.89	0.280	66.6	553.9	39.43
Arkansas	84	148.3	37.9	36.78	0.296	103.5	326.8	0.00
California	168	2,353.4	3,301.8	585.32	100.811	3,216.6	9,557.9	1,610.63
Colorado	235	279.7	53.4	65.34	3.879	295.0	697.4	0.00
Connecticut	17	128.3	125.3	61.62	0.045	24.8	340.1	12.49
Delaware	17	15.7	8.0	602.52	1.443	2.1	629.8	0.33
District of Columbia	21	159.0	204.6	19.31	1.005	62.9	446.8	54.75
Florida	162	741.9	346.3	250.45	11.264	133.9	1483.8	68.65
Georgia	58	194.5	132.5	117.27	6.348	112.7	563.3	16.82
Hawaii	3	0.5	0.0	0.14	0.029	1.0	1.7	0.00
Idaho	6	34.1	41.8	21.28	0.537	25.9	123.6	0.00
Illinois	394	541.8	1,019.4	242.01	1.945	965.2	2,770.3	601.03
Indiana	102	117.7	76.1	108.15	10.442	103.5	415.9	5.55
Iowa	105	34.0	21.4	26.81	0.363	72.8	155.3	2.15
Kansas	168	61.7	20.5	26.81	1.140	97.5	207.7	0.00
Kentucky	78	119.7	49.9	35.83	2.666	63.1	271.2	0.00
Louisiana	67	364.8	249.6	110.92	1.602	127.2	854.0	0.00
Maine	7	22.8	11.3	8.53	0.104	4.3	47.0	0.00
Maryland	25	46.7	70.2	116.47	3.509	58.3	295.1	14.17
Massachusetts	44	440.5	622.4	122.68	40.946	436.2	1,662.7	195.28
Michigan	94	201.7	168.0	109.87	2.903	115.2	597.7	27.90
Minnesota	211	321.5	496.0	94.99	15.708	352.5	1,280.7	186.55
Mississippi	29	71.2	23.4	39.05	0.000	25.8	159.5	0.00
Missouri	100	157.9	217.4	88.31	4.320	162.7	630.6	34.45
Montana	60	32.6	9.5	13.45	0.005	62.3	117.9	0.00
Nebraska	116	40.8	23.0	39.52	2.048	92.1	197.4	0.00
Nevada	7	35.4	71.3	128.36	0.167	6.1	241.3	0.00
New Hampshire	20	23.5	9.4	20.34	0.000	8.5	61.8	0.00
New Jersey	66	395.0	389.9	166.94	9.133	95.5	1,056.5	33.56
New Mexico	42	66.2	51.5	20.50	0.445	67.0	205.6	0.00
New York	104	1,826.0	6,374.1	1,234.25	74.647	4,286.6	13,795.6	4,982.97
North Carolina	16	202.4	216.4	91.95	6.378	128.0	645.2	51.99
North Dakota	41	16.9	0.0	9.82	0.651	79.7	107.1	0.00
Ohio	139	326.8	473.8	372.11	25.224	179.8	1,377.7	56.49
Oklahoma	208	334.4	114.5	44.96	0.073	253.7	747.6	0.01
Oregon	8	183.9	72.3	33.24	0.857	53.0	343.3	18.52
Pennsylvania	171	514.2	1,164.3	238.24	27.463	895.0	2,839.2	283.83
Rhode Island	5	105.4	73.3	22.63	27.742	29.7	258.8	7.29
South Carolina	21	111.9	39.3	35.12	0.837	19.7	206.8	0.00
South Dakota	25	11.9	13.6	978.13	0.020	29.5	1,033.1	0.00
Tennessee	55	137.9	167.3	88.15	3.680	39.5	436.5	1.66
Texas	983	4,499.5	2,441.9	299.95	4.786	1,501.3	8,747.4	341.26
Utah	7	121.7	73.1	31.14	6.220	6.1	238.3	0.00
Vermont	12	12.1	8.6	5.14	0.000	3.9	29.7	0.00
Virginia	49	166.2	79.9	83.66	2.070	57.1	388.9	0.22
Washington	24	407.3	364.9	108.27	6.528	272.8	1,159.8	82.08
West Virginia	97	79.1	11.3	58.55	0.266	48.7	197.9	0.00
Wisconsin	117	107.7	84.6	32.12	5.919	136.0	366.3	26.68
Wyoming	38	26.0	0.0	8.41	0.000	69.7	104.0	0.00
Puerto Rico	1	0.0	0.0	0.41	0.000	2.1	2.5	0.00

NOTE: These figures are fully consolidated foreign and domestic for all reporters

*Includes past due real estate and commercial and industrial loans and lease financing receivables for banks with foreign offices and/or assets of $300 million or more.

Average national banks' percent of loans past due, by assets

	Assets in millions of dollars									
	Less than $10	$10 to $20	$20 to $25	$25 to $40	$40 to $100	$100 to $300	$300 to $900	$900 to $5,000	$5,000 or more	All national banks
Real estate										
March 1987	4.9	6.5	5.9	6.2	5.4	4.9	4.9	5.3	5.7	5.6
June 1987	4.9	5.7	5.8	5.3	5.1	4.3	4.3	5.0	5.0	5.1
September 1987	5.3	5.9	5.7	5.4	4.9	4.3	4.4	4.9	4.9	5.1
Commercial and industrial										
March 1987	NA	NA	NA	NA	NA	NA	5.9	5.0	6.2	5.6
June 1987	NA	NA	NA	NA	NA	NA	4.9	4.9	5.4	5.0
September 1987	NA	NA	NA	NA	NA	NA	5.3	4.8	5.1	5.1
Personal										
March 1987	4.2	4.6	4.5	3.8	3.5	3.0	2.7	2.9	3.4	3.6
June 1987	4.2	4.2	3.7	3.3	3.3	2.9	2.3	3.0	3.0	3.3
September 1987	4.4	3.8	4.0	3.3	3.5	3.0	2.7	3.0	3.0	3.4
Leases										
March 1987	9.0	7.8	4.0	4.8	4.8	4.0	1.7	4.1	2.2	4.2
June 1987	6.9	4.3	2.8	4.1	4.4	2.5	3.0	3.4	1.9	3.5
September 1987	6.2	0.5	3.8	3.2	4.2	3.6	2.0	4.7	2.6	3.5
Other loans										
March 1987	10.0	10.2	9.1	8.7	8.3	6.9	7.7	2.4	6.4	8.2
June 1987	10.3	9.9	8.4	8.0	7.4	6.3	9.9	2.4	6.1	7.8
September 1987	10.3	9.8	9.2	7.7	7.1	6.7	11.3	3.5	5.6	7.9
Total loans										
March 1987	5.8	7.0	6.3	6.3	5.8	5.2	4.4	4.4	5.7	5.9
June 1987	5.6	6.2	5.9	5.5	5.3	4.7	3.8	4.2	5.2	5.3
September 1987	5.2	6.0	5.9	5.4	5.1	4.7	4.0	4.2	4.8	5.2

See notes on next page.

NOTES:

Changes in the report of condition format make comparisons to earlier periods difficult. Beginning with the report for March 1987 banks with assets of less than $300 million and no foreign offices report nonaccrual loans in the appropriate categories. In earlier periods, nonaccrual loans were reported in the "Total loans" category

Past due loans—These items are (1) single payment notes 30 days or more past maturity; (2) single payment notes with interest due at specified intervals and demand notes on which interest is due and unpaid for 30 days or more, (3) amortizing real estate loans and closed-end monthly installment loans and lease financing receivables in arrears two or more monthly payments, or, if scheduled other than monthly, when one scheduled payment is due and unpaid for 30 days or more; (4) open-end credit accounts on which the customer has not made the minimum monthly payment for two or more billing cycles; and (5) unplanned overdrafts outstanding 30 days or more after origination.

Nonaccrual loans—These items are (1) those maintained on a cash basis because of deterioration in the financial position of the borrower; and (2) those on which principal or interest has been in default for a period of 90 days or more unless the obligation is both well secured and in the process of collection, in which case it is considered merely past due.

Average banks' percent of loans past due—Percentages reported are averages of individual banks' percentages of loans past due with each bank accorded the same weight regardless of size; those individual bank percentages are based on dollar value of loans past due. All figures are as of the last day of the month indicated.

Loan categories—The loan categories for this table correspond to those for the report of condition except for "Other loans." "Other loans" includes loans to financial institutions, loans for purchasing or carrying securities, loans to farmers and all other loans not included in the specified categories. Banks with assets of less than $300 million and no foreign offices report commercial and industrial loans as part of "Other."

Data for prior periods, based on slightly different definitions, may be found in the *Quarterly Journal*, Volume 2, Number 1, pp. 229-232, Volume 5, Number 1, pp. 213-215 and Volume 6, Number 2, pp. 117-119.

Beginning March 1987, past due loans for all national banks are reported on a fully consolidated, foreign and domestic basis.

The following is provided for additional information:

*Commercial and industrial loans past due by address of borrower**
(Dollar amounts in millions)

	Loans outstanding	*Loans past due*	*Percent*
U.S addresses	$ 258,318 5	$ 11,585 1	4 48
Non-U.S addresses	65,342.0	8,302.8	12.71
Total	323,660.5	19,887.9	6 14

*Reported only by banks with foreign offices and/or assets of more than $300 million

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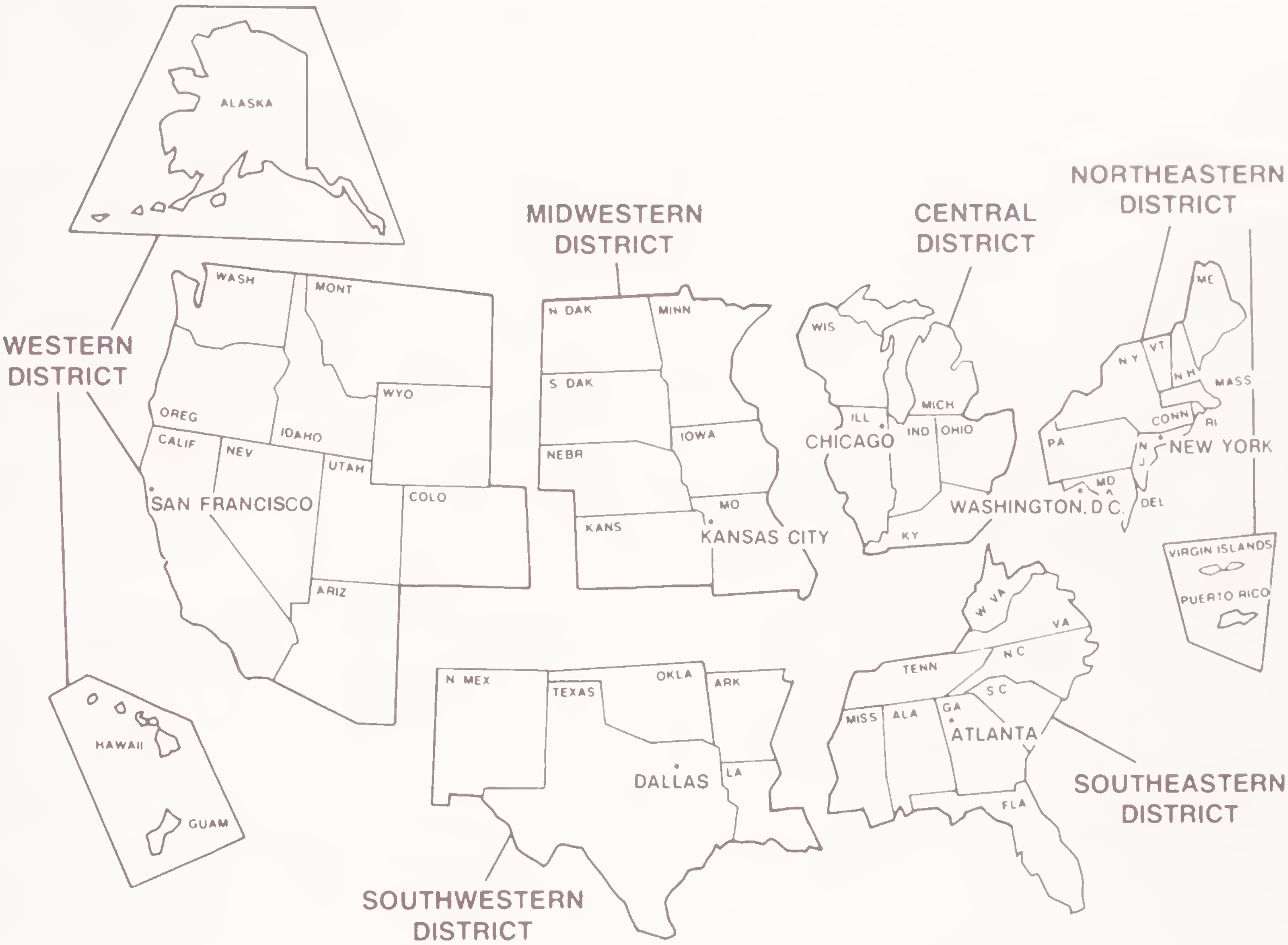

Northeastern District

New York District Office
1114 Avenue of the Americas
Suite 3900
New York, NY 10036

Commercial 212-819-9860

Central District

Chicago District Office
One Financial Plaza
Suite 2700
440 South LaSalle Street
Chicago, IL 60605

FTS 8-364-8000
Commercial 312-663-8000

Southwestern District

Dallas District Office
1600 Lincoln Plaza
500 North Akard
Dallas, TX 75201-3394

Commercial 214-720-0656

Southeastern District

Atlanta District Office
Marquis One Tower
Suite 600
245 Peachtree Center Ave., N.E.
Atlanta, GA 30303

Commercial 404-659-8855

Midwestern District

Kansas City District Office
2345 Grand Avenue
Suite 700
Kansas City, MO 64108

FTS 8-758-0700
Commercial 816-556-1800

Western District

San Francisco District Office
50 Fremont Street
Suite 3900
San Francisco, CA 94105

FTS 8-449-9900
Commercial 415-545-5900

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